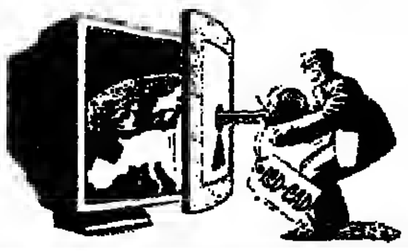
# FINANCIAL TIMES


Start the week with...



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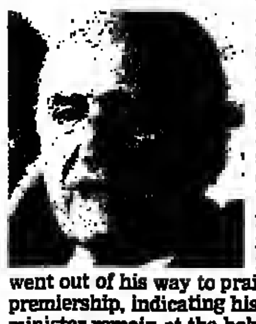
World Business Newspaper — TUESDAY JANUARY 2 1996


## Italian president shows support for Dini government



Italian President Oscar Luigi Scalfaro (left) appealed to the country's political parties to offer clear ideas on how long prime minister Lamberto Dini's government should last. Mr Dini offered to quit last week but the president rejected his resignation, insisting parliament must decide. Mr Scalfaro went out of his way to praise Mr Dini's 11-month premiership, indicating his desire to see the prime minister remain at the helm. Page 14; Risk and responsibility, Page 2; Editorial Comment, Page 13

**New Algerian PM chosen:** Algerian president Liamine Zeroual has chosen little-known career diplomat Ahmed Ouyahia as the country's new prime minister. Page 14

**Russia to pursue tough line on economy:** Russia's economics ministry pledged it would continue to pursue a harsh monetary policy designed to stabilise the economy in spite of the strong anti-government protest vote in last month's parliamentary elections. Page 2

**New move to end US budget impasse:** US President Bill Clinton will meet congressional Republican leaders today to resume talks on ending the protracted federal budget dispute. Page 4

**Walt Disney,** the US entertainment group which recently bid $19bn for the Capital Cities/ABC television company, plans to strengthen its presence in the music business. Page 15

**Chirac heeds lesson from strikes:** French president Jacques Chirac, in his new year address to the nation, said one lesson to be drawn from the recent widespread strike action over his government's proposed social security reforms was the need for greater dialogue and consultation. Page 2

**Mexican bus crash kills 25:** Two buses were involved in a head-on collision in northern Mexico, killing 25 people.

**Western hostages 'in good health':** Four westerners held hostage by separatists in Kashmir are in good health after nearly six months in captivity, Indian authorities said. However officials ruled out a rescue mission for fear of endangering the hostages' lives.

**Earthquake hits Indonesian island:** An earthquake measuring 7.0 on the Richter scale struck the Indonesian island of Sulawesi, destroying wooden houses and triggering tidal waves and aftershocks. There were no immediate reports of casualties. Page 2

**Sri Lanka counts cost of war:** Sri Lankans face steep price rises to fund mounting war bills from the military's conflict with separatist Tamil rebels. Page 4

**Forte plans international expansion:** The UK's biggest hotels company Forte, which is fighting a £3.3bn ($5bn) hostile bid from UK leisure group Granada, is planning a further 26 Meridien Hotels in a push to expand internationally. Page 15

**Zedillo reshuffles Mexican cabinet:** Mexican president Ernesto Zedillo made further changes to his government, which is still struggling with the unpopularity caused by the country's currency crisis. Page 4

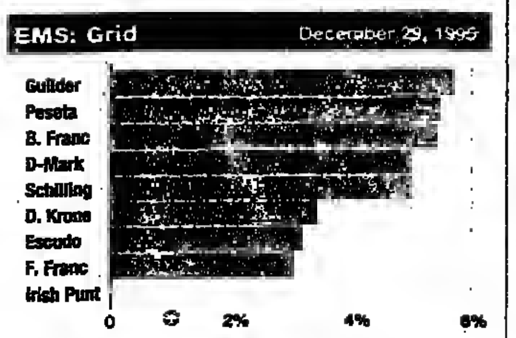
**Fishing patrol in disputed area:** A UK fisheries protection vessel patrolled the Irish Box fishing area, between western England and Ireland, on the first day that Spanish trawlers were legally entitled to work in the disputed zone. Page 6

**Corsican nationalist killed:** Gunmen shot dead a Corsican nationalist and three bombs exploded on the French Mediterranean island in an apparent revival of a vendetta between rival separatists. Page 2

**Moscow revellers freeze to death:** Two new year revellers froze to death in Moscow after they collapsed in the streets following heavy drinking sessions. Health officials said 25 people had been taken to hospital with frostbite as temperatures dropped to almost minus 20 deg.

**European Monetary System:** The Spanish peseta climbed a further place in the EMS grid, in an environment where some investors favoured high-yielding currencies. The order of currencies in the EMS grid, and the spread between strongest and weakest, was otherwise unchanged. Foreign exchanges in general were very quiet in the run-up to the new year. Currencies, Page 23

**EMS: Grid** December 29, 1995




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.*

| | | | | | | |
|---|---|---|---|---|---|---|
| Sch37 | Greece | Dr400 | Malta | Lm0.65 | Qatar | QR13.00 |
| Dm1.250 | Hong Kong | HK$20 | Morocco | MDh16 | S.Arabia | SR12 |
| BFr75 | Hungary | Ft230 | Neth | Fl 4.75 | Singapore | S$4.30 |
| M20.00 | Iceland | IKr230 | Nigeria | Naira90 | Slovak Rp | SK65 |
| C£1.20 | India | Rs75 | Norway | NKr20.00 | S. Africa | R12.00 |
| K£60 | Israel | Shk7.90 | Oman | OR1.50 | Spain | Pta250 |
| DKr18 | Italy | L3200 | Pakistan | Rs40 | Sweden | SKr20 |
| E£5.00 | Japan | Y500 | Philippines | Pso50 | Switz | SFr3.70 |
| Kr 22 | Jordan | JD1.50 | Poland | Zl5.50 | Syria | S£65.00 |
| 15.50 | Kuwait | Fils650 | Portugal (mainland) | Es240 | Tunisia | Din1.750 |
| 1.50 | Lebanon | US$1.50 | | | Turkey | L70,000 |
| 4.00 | Lux | LFr75 | | | UAE | Dh12.00 |

Move fuels doubt on ruler's health but ends speculation over succession

# Ailing King Fahd hands over power to Saudi prince

By Roula Khalaf, Middle East Correspondent

Saudi Arabia's King Fahd handed over the running of the government yesterday to his half-brother, Crown Prince Abdullah, in a development likely to raise further doubts about the king's ailing health but end speculation about succession in the kingdom.

A royal order carried by the official Saudi Press Agency said the 73-year-old monarch, who is believed to have suffered a minor stroke last November, was handing over "management of government affairs" to the crown prince while he recuperates.

Prince Abdullah, who is two years younger than the king, is deputy prime minister and head of the powerful 57,000-man National Guard. He is seen as more conservative and less internationally minded than the king, though diplomats said he was unlikely to change the kingdom's foreign and economic policies.

Saudi Arabia is the world's largest oil exporter. The decree said the prince would take over while the king enjoyed "rest and recuperation".

The decision makes official a role the prince has played since the king fell ill.

Although he will officially now chair cabinet meetings and represent the king on official visits, the move may prove to be temporary if the king's health improves, diplomats said yesterday.

"It sounds more like a technical move, a kind of regency," said one diplomat in the kingdom. "The king is still king. What we don't know is how much he will still be involved and this will depend on his health."

The king left hospital on December 8 after suffering what was officially termed a "sudden indisposition" but is known to have been a stroke.

Diabetic and overweight, King Fahd was seen on television yesterday aided by a walking stick as he received Crown Prince Abdullah and Prince Sultan, the defence minister.

Saudi officials yesterday suggested the move was aimed at putting an end to speculation of a power struggle within the kingdom.

The talk had been fuelled in recent months by two big shocks. The first was the monarch's illness, the second a car bomb on November 13 which destroyed a US-staffed Saudi National Guard communications centre in Riyadh, the capital, which marked the first serious assault to hit the country.

Islamic fundamentalists opposed to the regime have latched on to these events from their base in London and claimed that, as the king's health deteriorates, a power struggle has broken out in the royal family.

Yesterday's move preceded the unveiling of Saudi Arabia's 1996 budget. Early indications suggested the kingdom would continue public sector retrenchment, maintaining expenditures at SR150bn ($40bn) the same as in 1995.

Faced with a cash crunch resulting from the collapse of oil prices and the cost of the 1990-91 Gulf war, Saudi Arabia has since 1994 embarked on a policy of cutting government expenditures and raising non-oil revenues.


Conservative Abdullah takes reins of power, Page 3


Crown Prince Abdullah: will take over running of the government while King Fahd enjoys "rest and recuperation" Picture: Reuter

# Only half EU states ready for investment directive

By Andrew Jack in Paris with Andrew Fisher in Frankfurt, Andrew Hill in Milan and Emma Tucker in Brussels

Only seven of the European Union's 15 member states were ready to implement the Investment Services Directive when it came into effect yesterday, the European federation of stock markets reported.

The directive is designed to allow non-bank investment groups to carry out several activities more easily across borders.

It aims to create a "passport" system allowing an institution regulated in one EU country to operate in all the others without having to comply with additional requirements.

Stock market officials in some countries say they have restructured and are ready to meet the requirements of the directive but their governments have not yet passed the necessary legislation. Other governments have expressed concern about accepting the "passport".

Market officials say the seven which have to all intents and purposes met the requirements of the directive on time are the UK, the Republic of Ireland, Denmark, the Netherlands, Sweden, Luxembourg and Belgium.

In some of these, however, the legislation itself still needs to be passed. Belgium, the Netherlands, Denmark, and France are expected to introduce the legislation by the middle of this year. Germany, Greece and Spain will not be prepared for full implementation until 1997.

Some countries such as France and Italy have used the enabling legislation for the directive to push through broader financial regulatory reforms, which has held up progress.

There are already strong links between the Frankfurt and Paris derivatives markets which are expected to deepen in the coming months, but the directive should extend links throughout Europe.

In Germany, this will create considerable new work for the Federal Supervisory Office for


Continued on Page 14
Italy and the EU presidency, Page 13


# UK ministers face prospect of minority rule

By James Blitz in London

## Defeats, defections and deaths continue to erode Major's hold on power in the House of Commons

Ministers in Britain's Conservative government were yesterday contemplating the probability that Mr John Major, the prime minister, will lead a minority administration later this year. Senior ministers privately admitted that the government could expect to lose its majority in the House of Commons before the end of 1996 – and that it may rely for survival on the support of MPs from the Ulster Unionist party, the largest pro-British party in Northern Ireland.

Conservative fears are based on several factors. By the end of parliamentary business in 1995, the government's majority in the Commons had been reduced to five by the death of one of its MPs and the defection of another to the opposition Labour party.

The majority was cut further late on Friday when Miss Emma Nicholson, a long-standing Conservative MP, announced that she was switching to the centrist Liberal Democrat party.

There are now two Commons seats left vacant by the deaths of MPs. One has the largest Labour majority in the country and the other, although held by a Conservative, is expected to be captured by Labour. That would cut the Conservative majority to one.

Ministers yesterday played down claims by one left-of-centre Conservative that at least six other MPs were prepared to defect to opposition parties. Several admitted that an inevitable further incidence of by-elections triggered by the deaths of MPs would push the party into a Commons minority in 1996.

Despite increasing signs that his party may have to rely on the support of Ulster Unionists in any No Confidence motion, Sir Patrick Mayhew, Northern Ireland secretary, insisted that there would be "no special treatment" for the Northern Ireland party. "I recognise no difference in the essential equation by reason of events in the last few days or even a longer period," he said on BBC Radio.

Other ministers, however, were already contemplating the need for concessions to the Ulster Unionists, with one privately conceding that relations with the Northern Ireland parties would be "critical" to the government's fortunes as the year progressed.

Calculations over the government's majority coincided with signs that the delicate truce between left and right wing Tories appeared to be tottering. Mr Michael Portillo, defence secretary, scorned Miss Nicholson's claim that the reason for her defection had been the party's shift to the right.

However, Sir Edward Heath, a former Conservative prime minister, rounded on Mr Portillo, claiming that the party had clearly taken an anti-European stance and that Miss Nicholson's defection needed to be heeded. "There is no doubt at all that the party has moved to the right," he said. "That can't be denied... it may be denied, but if it is denied it is a false denial."

Mr Peter Temple-Morris, a pro-European backbencher, called on ministers to rise above the war between the wings of the party.


Business confidence outlook gloomy, Page 6
Editorial Comment, Page 13


# Murayama urges acceptance of home loan groups' bailout

By Gerard Baker in Tokyo

Mr Tomiichi Murayama, Japan's prime minster, has urged an increasingly sceptical Japanese public to accept the government's plan to spend more than Y685bn ($6.72bn) in bailing out the country's failed housing loan companies.

In a new year message to the nation, Mr Murayama signalled the start of what is likely to be a fierce political struggle over the bailout in the new parliamentary session which begins later this month.

The prime minister acknowledged the unpopularity of the plan, which will cost every individual in Japan at least Y5,500, but said it had been an unavoidable and "painful" decision.

He promised a full investigation into the causes of the failure of the seven companies. "I will try from now on to shed light on the entire problem," he added.

Last month the cabinet agreed to allocate Y685bn from next year's budget to pay for the cost of partially reimbursing creditors of the bankrupt housing lenders. The government also committed itself to spending even more if the final costs of liquidation turn out to be greater than is forecast.

The companies, which were established by the leading banks in the 1970s, are on the verge of collapse under a pile of non-performing loans advanced mostly in a bout of reckless lending to the property sector during the bubble economy of the late 1980s.

Popular opposition to the principle of spending taxpayers' money has escalated since the decision was announced and will be exploited by opposition parties when the parliamentary discussion of the national budget begins at the end of this month.

Mr Ichiro Ozawa, the newly-elected leader of the main opposition New Frontier party, signalled his determination at the weekend to oppose the bailout if the government did not provide a satisfactory and detailed account of who was responsible for the costly mess.

The government has already attempted to head off the public's anger by hastily removing the senior official at the finance ministry. Mr Kyosuke Shinozawa, the administrative vice-minister for finance, resigned last week, in part to take responsibility for the housing loan problem.

But the opposition wants the blame for the fiasco to be spread much more widely among politicians and bureaucrats. In its sights are Mr Masayoshi Takemura, the finance minister, and most intriguingly, Mr Ryutaro Hashimoto, the international trade minister and leader of the Liberal Democratic party, the largest coalition partner. Mr Hashimoto was finance minister during the period when most of the reckless lending of the housing loan companies was undertaken.

In 1990 the finance ministry issued guidelines to all financial institutions to curtail their lending to property-related companies. But the instructions did not apply to the housing lenders which continued to pour money into highly speculative real estate projects.

The finance ministry has promised a full inquiry into the circumstances of the housing lenders' demise, and has promised that those found responsible will be held to account.

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New Year's address: French president stresses patriotism

# Chirac concedes dialogue needed on reforms

By Andrew Jack in Paris

Mr Jacques Chirac, the French president, made a sharp break with the practice of his predecessor, Mr François Mitterrand, on Sunday night by raising the political content of the country's traditional New Year's Eve address from its head of state.

In an address lasting nearly 15 minutes and broadcast on most television news channels, Mr Chirac devoted much of his time to defending his decisions over the last few months and how they tied in to his election campaign promises.

He made patriotic play of France's historical mission and global importance, and its continued commitment to brotherhood, tolerance and justice.

Referring to the widespread strike action since last November, which was prompted by his government's proposed social security reforms, he called the resulting period one of "crisis".

In his strongest statement of support for Mr Alain Juppé, he praised the "courage and determination" of the prime minister, as well as the rest of the government.

However, in a sign of implicit criticism, he said one lesson to be drawn from the experience was the need for greater dialogue and consultation – something he acknowledged had not been characteristic of France in the past.

Another lesson – in a jibe at his political predecessors – was that "it is no longer possible to govern as we have for the last 20 years" with only piecemeal reforms. He stressed the need for a country able to cope with "global competition".

He said his aim remained to build a "new France" based on justice, unity and responsibility, and his top priority remained to reduce unemployment – which remains at more than 11.5 per cent.

He placed less emphasis than in a previous TV interview last October on fiscal rigour, but talked about the need to set up a creative, productive economy. He pledged that taxes – which have risen since his election – would be cut as soon as possible.

President Chirac made time to discuss the French commitment to Europe – a point brought home by the EU's flag hanging alongside that of his own country on the wall behind him.

However, he also stressed the need for change in the administration of the EU so that it was "more attentive" to the daily needs of the French, including their "social hopes" and the "real priority" of employment.

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EUROPEAN PRESS REVIEW

# Beacon for emerging democracy

RUSSIA

By John Thornhill

Democracy can be a baffling business. In Soviet times, Russia's voters could vote for only one party whose political philosophy was force-fed to them from birth.

In last month's parliamentary elections they had a choice of 43 parties with each one claiming to have the only answer to Russia's woes.

Such a drastic democratic upheaval has clearly left many Russians bewildered and may help explain why more than one-fifth of them opted for the familiar and voted for the return of the Communists. But the elections also proved an education for Russia's political leaders who are now scrambling to learn the lessons before the all-important presidential elections scheduled in six months' time.

The *Magnitogorsk Worker*, the local newspaper for the Urals industrial town founded as part of Stalin's industrialisation drive, encapsulated many of the confusions and controversies that came to dominate the campaign.

In so doing it reflected, in microcosm, the social pain and ideological uncertainties that continue to bedevil Russia.

The newspaper, founded in 1930 and still proudly bearing a Soviet emblem on its front page urging the proletariat of the world to unite, provided full, lively, and generally fair coverage of the campaign, encouraging those who see the media as an important factor in the development of a healthy civil society.

Like most of Russia's local newspapers, the Magnitogorsk Worker could have been under enormous pressure from many quarters. The list of six parliamentary candidates for the city seat included the deputy head of the local administration and a director of the steel combine which employs 60,000 workers and dominates the region's economy.

But Mr Georgy Tikhonov, the chief editor, argued that the newspaper's role was simply to provide an objective forum for the debate and encourage readers to participate in the vote. "This newspaper does not agitate for or against particular candidates. . . it agitates for something else: for the widest possibility for people to discuss openly one or another candidacy and the course of the campaign itself. Read, think, and make your choice!" the newspaper stated.

In comparison with most western newspapers, the Magnitogorsk Worker provided few reports and opinions from its own journalists but carried extensive personal contributions from the candidates and scores of letters from its readers.

It even set up a telephone hot line to record its subscribers' views.

Mr Alexander Pochinok, the incumbent deputy who represented the then pro-government Russia's Choice party in the previous vote in 1993, was the dominant figure in the campaign for one of Russia's 225 directly-elected seats.

Although he supported the government's harsh monetary policies which many criticised for Russia's social ills, Mr Pochinok boldly launched his campaign by concentrating on social problems and promising to improve the lot of the elderly. "Our most sick problem is the material position of our pensioners," he wrote.

But his attempt to seize the mantle of social concern was fiercely contested by the Communist candidate who wrote an emotional tirade against the government's policies and promised a restoration of the certainties of the Soviet era. "Vote for those who will revive your power in the form of workers' soviets, who will give you back your factories and will allow you to decide fairly how to divide the results of your labour."

These themes were echoed in the opinions of the newspapers' readers who expressed impassioned and disparate views.

"During the war, millions were evacuated here and resettled. They were given work and a roof but now they have been thrown out. Every honest person will vote for the Communists," said one.

"I do not want to return to the miserable plague-stricken camp of the past but I fear the thorny road forward to civilisation," commented another.

One reader planned not participate in the elections at all given they were merely a "political spectacle distracting the country from its true problems" while another condemned the newspaper itself for giving too much space to the "so-called democrats".

The Magnitogorsk Worker made clear it was aware of some dirty electoral tactics during the campaign but did not identify who was responsible for them in order not to prejudice opinions.

In the week before the vote, it carried an item about a pensioner who had been contacted by someone claiming to represent the local telephone company. "Vote correctly and your telephone bill will be paid in advance for a year," the mysterious caller promised.

On the eve of the elections, the newspaper urged its readers to go to the polls although it recognised that many voters were still confused by the extraordinary range of parties on the ballot paper. "Vote friends, with pragmatism and without emotion, for those in whom you are sure. It is in our powers to ensure that the finish of the electoral marathon does not turn into a celebratory feast for disreputable politicians. Everyone to the elections!"

The results were slow to trickle in and the Magnitogorsk Worker did not publish the preliminary outcome until three days after the poll. The electors of Magnitogorsk had returned the pro-market Mr Pochinok as their local candidate but they had also lodged a strong protest vote backing Mr Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic party and the Communists in the simultaneous ballot for the seats assigned on the basis of proportional representation.

Following the poll, some of the newspaper's readers reflected that democracy was an experimental process from which political leaders as well as voters had to draw lessons. Some urged the democrats to unite before the critical presidential elections in June to minimise the number of votes "wasted" in backing many small parties.

In all, 39 parties – including Russia's Choice – failed to garner more than the 5 per cent of the vote required to win any of the 225 seats in the 450-strong parliament allocated by proportional representation. Mr Pochinok, for example, has been elected as a representative of a party which will be unable to form its own faction in parliament.

One voter told the newspaper: "Voting is most democratic. But you must write that Hitler also came to power in Germany by democratic means. We must go forward to the presidential elections but people must be vigilant."


Magnitogorsk Worker's masthead: the paper resisted pressures

# Russia pledges tough line on economy

By John Thornhill in Moscow

Russia's economics ministry yesterday pledged it would continue to pursue a harsh monetary policy designed to stabilise the economy and cut the monthly rate of inflation to below 2 per cent, despite the strong anti-government protest vote in last month's parliamentary elections.

However, the ministry's tough stance, contained in an annual economic forecast, was seemingly at odds with the softer rhetoric employed by President Boris Yeltsin in his address to the nation on New Year's Eve.

"The main task for 1996 is that those in Russia who today are poor should begin to live better," he said, promising the government would rectify the problem of delayed wage and pension payments which has caused great social distress. "Those who are unable to bring order to this matter must resign and not wait for the president to tell them to," he said.

Mr Yeltsin also lashed out at the corruption in financial circles which was responsible for diverting money intended for social spending: "This is simple theft."

Last week, Mr Yeltsin criticised the economics ministry, employing rhetoric reminiscent of the Stalinist era to denounce "saboteurs" who were responsible for undermining the reform programme.

He promised to increase payments to pensioners by compensating them for savings eroded by the hyper-inflation of the early reform years.

Mr Yeltsin's pledges have led some economists to fear that the government may consider loosening its monetary policy pushing up inflation early this year. The government may come under intense pressure to increase spending on social protection to curry electoral favour before the presidential election in June.

But ministers have repeatedly argued that there is no contradiction between tight monetary policies and a rise in the standard of living.

● Russia confirmed that it had missed the New Year deadline for destroying thousands of tanks and other military hardware beyond the Ural Mountains and said Uzbekistan, Kazakhstan and Turkmenistan had also failed to meet the treaty commitment, Reuter reports from Moscow.

General Dmitry Kharchenko said Moscow wanted to push the December 31 1995 deadline, pledged by the Soviet Union in 1991, back to the end of 1998. The pledge had cleared the way for ratification of the Conventional Forces in Europe treaty. The delay was purely because of economic problems, said Gen Kharchenko, who is the army staff officer responsible for international military co-operation.

Moscow wants the CFE treaty revised, saying the limits are now out of date.

Former premier Cavaco Silva, in second place, warns of political 'capsize'

# Sampaio leads as Portugal nears vote

By Peter Wise in Lisbon

Campaigning for Portugal's presidential election on January 14 began this week with Mr Jorge Sampaio, the Socialist candidate, showing a clear lead over Mr Aníbal Cavaco Silva, prime minister for 10 years until the defeat of his centre-right Social Democrats in last October's general election.

Mr Sampaio, a former Socialist party leader who stepped down as mayor of Lisbon to run for the presidency, was given 41.6 per cent of the vote in a newspaper poll yesterday, compared with 34.9 per cent for Mr Cavaco Silva. A weekend poll based on a broader sample of more recent interviews gave them 50 and 34 per cent respectively.

Since the return of democracy in 1974, Portugal has consistently elected presidents from the party opposed to the government so that each acts as a counterweight to the other. Mr Cavaco Silva says that Portugal will "capsize" if all political weight is shifted to the Socialists, who are also dominant in local government.

However, the polls indicate that most voters are inclined to provide additional support for the Socialists, who are four seats short of a parliamentary majority, by electing Mr Sampaio.

Under Portugal's "semi-presidentialist" constitution, the president has the power to dissolve parliament and call an early election when governments run into difficulties.

Mr António Guterres, the prime minister, is campaigning for the backing of a Socialist president. This would help his minority government meet election commitments both to spend more on social reforms and exercise the budgetary discipline required to meet the convergence targets for European economic and monetary union.

Ministers say Mr Cavaco Silva would seize the first opportunity to dismiss the government if he won the election, although he has pledged to co-operate fully with the Socialists in the interests of stability.

The former prime minister's attempt to change from an aloof decision-maker to the kind of benevolent figure of tolerance and concern that outgoing Socialist President Mário Soares has made popular is proving difficult to achieve.

Despite popular respect for his integrity, support for Mr Sampaio, a less charismatic leader, appears to be based more on disapproval of his rival, whose government had grown increasingly unpopular before its defeat, and on backing for Mr Guterres.

The government is avoiding decisive measures, including the presentation of the 1996 budget, until after the presidential vote. It hopes the honeymoon that followed its election can be prolonged enough to benefit Mr Sampaio.

# Italians weigh risk and responsibility

**Robert Graham** on options for parties in the search for an eventual successor to Dini

Political decisions in Italy are rarely made in a hurry. No one wishes to assume the responsibility – and risk – of the first move. This is why the politicians will take their time in deciding the fate of Prime Minister Lamberto Dini's government even though they have had ample notice of the administration's limited duration.

Mr Dini tendered his resignation on Saturday to President Oscar Luigi Scalfaro, after approving an additional financial package for the 1996 budget. This was his last self-appointed task.

President Scalfaro has now thrown the responsibility back to parliament to decide what should happen next. This will take the form of a parliamentary debate later this week or early next week.

Having acquired a taste of power over the last 11 months, Mr Dini is more than willing to stay on. Moreover, President Scalfaro, who has the final say on a date for the next general election, is clearly anxious the former director general of the Bank of Italy should remain in office.

Mr Scalfaro believes it is too late for a big political shake-up now that Italy has the responsibility (since January 1) of the presidency of the European Union. He thus wants Mr Dini to remain as prime minister – probably with a revamped cabinet – for the duration of the six-month presidency. But this seems to be part of a broader strategy by Mr Scalfaro, a former Christian Democrat interior minister, to allow parliament to survive until 1997, thus permitting more time for a recreation of the centre grouping which dominated post-war Italian politics until 1992.

The parliamentary debate is expected to focus on three broad scenarios:

● Mr Dini heads the government to ensure a stable EU presidency and permit elections around June.

● Mr Dini presides over a caretaker government with elections held in late February or early March.

● A broad-based government is formed lasting up to two years to permit a programme of big institutional reforms.

The first scenario involves several variations. For instance, Mr Dini could seek to maintain the backing of the centre-left parties, headed by the Party of the Democratic Left (PDS), which supported his government of non-parliamentarians all last year. This would provide a fragile majority in parliament unless a prior understanding was reached with the rightwing alliance headed by Mr Silvio Berlusconi, the former prime minister. The government would be little more than a caretaker, while the parties indulged in a six-month election campaign.

Alternatively Mr Dini, who has no political base of his own, could try to broaden the backing for the government to include the small centre parties in the rightwing alliance. This would have the advantage of lessening the exposure of the centre-left as the government's main backer and would provide some chance of parliament pushing through a few reforms in the next few months. It would also help offset the destabilising effect of the populist Northern League, which, with almost 80 deputies, retains considerable power to swing votes.

The second scenario is straightforward and would mean parliament being dissolved shortly after the debate on the government's future. Mr Dini would remain in office but with no real executive power. Given that it normally takes a good six weeks to two months to form a government after an election, Italy would be without an effective administration probably until May.

The third scenario is the most complex. At a minimum it would require a commitment from the PDS, some of the centre parties and the bulk of Mr Berlusconi's alliance to back the idea of carrying out over the next two years important institutional reforms such as strengthening the prime minister's position and ending the duplication of the bicameral system. This would be done either by allowing a "technical" government to continue as the executive while a special bicameral commission was formed to draw up the reforms; or a new government would be formed, drawing ministers from the parties supporting it. The onus would then be on the government to draw up the reforms.

Mr Berlusconi has been exploring this idea of a broad-based government over the Christmas break. His scheduled trial later this month for corruption probably played a part in his change of mind. But the PDS is sceptical of his chances, and the rightwing National Alliance (AN), his main ally, is openly hostile to the idea. The parties themselves are changing too fast for a broad-based alliance to survive and be useful.

The PDS has the power to force elections simply by refusing to continue backing Mr Dini; hot of late Mr Massimo D'Alema, the party leader, has dropped his insistence on an early vote. This is because the PDS-dominated centre-left is increasingly divided on strategy and beset by doubts about being led in an election by the uncharismatic Mr Romano Prodi, the Bologna academic and former head of Iri, the state holding company.

The centre-left staked much on striking an electoral deal with a movement headed by Mr Antonio Di Pietro, the former Milan magistrate. But Mr Di Pietro may now be prevented from entering politics because of his own problems with the law that have arisen as a result of investigations over his abuse of office before he joined the Milan magistrates' anti-corruption team.

Against this background, the simplest option for the political parties is to allow Mr Dini to stay with the excuse that Italy needs an identifiable government to play its full role as EU chairman. This is a convenient fig-leaf behind which the politicians can hide their confusion. But it will merely postpone the day of reckoning at the ballot-box and is unlikely to provide an authoritative government, even if Mr Dini has proven to be a skilled and ambitious operator of the system.

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D'Alema, left, has dropped insistence on an early vote while Berlusconi has explored idea of broad-based government

INTERNATIONAL NEWS DIGEST

# Pact to open up state contracts

*Public procurement contracts valued at several* billion dollars a year will be thrown open to international competition under a World Trade Organisation agreement which took effect yesterday.

The agreement covers more countries and purchasers – and applies to a wider range of contracts – than existing rules agreed under the General Agreement on Tariffs and Trade 15 years ago. In addition to covering services for the first time, the new rules extend to procurement by sub-central purchasers, such as states, provinces, departments and utilities, as well as to central governments.

Though not all WTO members are obliged to participate in tha agreement, it has been ratified by more than 20 governments, including the US, the European Union's 15 members, Japan, South Korea and Switzerland. Singapore and several other countries plan to subscribe to it.

The accord exclndes defence contracts, EU telecoms and the US regional and urban public transport sector.

The complex new rules set a variety of thresholds, denominated in Special Drawing Rights, above which contracts must be opened to competition. The threshold for central government procurement is SDR130,000 (£125,000), for sub-central purchasers about SDR200,000, and for ntilities roughly SDR400,000.

The agreement also lays down specified tendering procedures, to ensure that foreign bidders and foreign goods and services are treated on the same basis as those in the purchaser'e home country. *Guy de Jonquières, London*

## Quake hits Indonesian island

A powerful earthquake measuring 7.0 on the open-ended Richter scale shook Indonesia'e Sulawesi island yesterday, destroying wooden houses and triggering tidal waves and aftershocks.

Officials said the extent of damage along a remote isthmus, 38 miles at its widest, in central Sulawesi was unlikely to be *known until today because of poor communications. There* were no immediate reports of loss of life.

Information was slowed by a lack of telephone lines in the remote area between the towns of Palu, the provincial capital, and Tolitoli, to the north-east of Palu.

Tremors and quakes are fairly common events in Indonesia. But casualties and damage are often minimal because of low population densities in many areas ontside towns and cities. *Reuter, Jakarta*

## Wave of violence in Corsica

Gunmen shot dead a Corsican nationalist and three bombs exploded on the French Mediterranean island yesterday, raising fears of a renewed vendetta between rival separatists.

Gilbert Rossi, a 34-year-old member of the Cuncolta Naziunalista movement, was killed by unknown attackers outside a restaurant during New Year celebrations in the port of Ajaccio in the south-west of the island.

Three bombs, including one at a flat owned by another Cuncolta member, went off in the town before dawn and police defused a fourth device. No one was hurt in the explosions.

The Cuncolta is linked to the hardline "historic wing" of the outlawed Corsican National Liberation Front (FLNC).

Rossi was the 13th nationalist to die since a bloody feud erupted last year between the FLNC and the rival Movement for Self-Determination (MPA), both demanding greater Corsican autonomy from France. Corsica has been hit by more than a dozen bomb attacks since Christmas. *Reuter, Ajaccio*

## Gene cloning raises hopes

A gene that has been linked with obesity has been cloned, a step that brings closer a new generation of treatments for the chronically overweight.

Two companies, Millennium of the US and Roche of Switzerland, describe the cloning – effectively the manufacture – of the "ob" gene in the *latest issue of the* journal Cell.

The ob gene triggers the manufacture of a protein, leptin, which last year was been shown to affect the weight of mic with no significant side effects. But the relationship betwe leptin and weight in humans has not yet been established precisely. The two companies claim to have narrowed res to the gene's activity in the brain, but further work is probably needed before development of an obesity drug b on the ob gene could start.

Last year, the US biotechnology company Amgen paid for in the Rockefeller Institute in New York, which first *identified the gene, for the rights* to *products arising* from it. *Daniel Green.*

# Soccer clubs in Egypt win over TV fees

## Government pitches in to boost royalties, writes James Whittington

It was not quite the kind of negotiations Rupert Murdoch or Kerry Packer might be used to, but for Egypt's football clubs earlier this month it was quite something to score against the state television monopoly.

Cairo's two most popular soccer teams last month banned state television from broadcasting their matches after a row over royalties, forcing the government to intervene in their favour.

The Egyptian government has long been ultra-cautious about allowing market forces to unsettle the country'a protected state sector. But wben it came to football, two senior ministers readily made the necessary concessions.

In the Egyptian football calendar, the highlights of the season are tbe matches between Cairo rivals Ahli and Zamalek.

These succeed in emptying the city's streets and push TV ratings way past the most gripping soap operas.

Facing financial difficulties, the two teams astonished many Egyptians by putting aside their rivalry on the pitch to take on the powerful Radio and Television Union which for years has benefited from its monopoly on domestic broadcasts by refusing to negotiate fees for televising matches.

The clubs' financial problems began after the 1990 World Cup in Italy, wben the football federation urged clubs to turn professional and sign contracts with players.

This led to fierce competition to sign the best footballers which pushed up transfer fees and forced club directors to look more closely at their finances.

In August, it became obvious that something had to give wben Zamalek paid a record E£600,000 ($177,000) for Egypt's highest goal scorer, Ahmed el-Kas.

"Faced with this kind of costs, to keep a first class team we had to start thinking seriously about our finances," explained Mr Adly el-Kee'l, manager of Ahli.

"Before we just worried about winning our matches but suddenly we had to think about our performance in terms of profits and losses. We needed more income and the television rights seemed an obvious candidate for change."

At the start of the aeason in September negotiations between the soccer clubs and the RTU on broadcasting fees were not going well.

The clubs complained that the fees, which are always paid to the home side, were not only too low but also depressed gate earnings because fans would stay at home to watcb the matches live on television. Demands for a better arrangement, bowever, were given short shrift.

"The (Radio and Television Union) is not a bank," Mr Amin Bassiouni, president of the RTU, was reported as saying. "We are not responsible for the soccer clubs' financial problems."

On November 5, to break the deadlock, Ahli, the national champions, took the unprecedented step of banning TV cameras from its matches. Attendances rose three-fold, and the club said It earned more from gate receipts than the previous television fee structure.

With the first goal scored, Zamalek quickly followed suit.

Caught offside and facing the wrath of Egypt's football fans, the state-run hroadcasters quickly called on the government to act as referee.

The deputy prime minister, Mr Kamal el-Ganzouri, and the information minister, Mr Safwat el-Sherif, were put on the case.

As the weeks went by and Ahli and Zamalek stayed off the screens, football fans became more and more restless, with the local press firmly in favour of the clubs.

With the pressure on, the RTU hacked down, and the government stepped in to provide the extra money.

A three-year contract which came into force on Saturday, will double the clubs' earnings - E£200,000 for matches between Ahli and Zamalek and E£150,000 for other matches.

"We're very, very happy, it shows we were right to stand np and fight," said Mr Ali Osman, chairman of Zamalek.

# Jamaica ponders an economic victory of sorts

The custodians of Jamaica's truculent economy are celebrating a victory, of sorts.

After 18 years of mainly acrimonious relations with tbe International Monetary Fund, the island has ceased to be a borrowing member. With foreign reserves covering three months of imports, government officials are claiming that the new status with the IMF is a victory for the administration's management of the economy.

Others are not so sure. The victory for Jamaica is pyrrhic, and the IMF can claim a win in getting Jamaica to implement its structural adjustment policies, say the government's critics. They point to continuing currency instability and to billowing inflation. Businessmen complain that high interest rates – a government tool for damping demand and reducing pressure on the exchange rate - are driving them out of business.

"After 18 years and being in a relationship with the IMF it must reflect that we have managed effectively the macro economy," said Mr Percival Patterson, Jamaica's prime minister. "I am not concerned whether tbe IMF will claim some credit. My greater satisfaction is that the economic situation is sucb that we do not need to borrow from them and that we can take our own economic choices in accordance with our sovereign judgments."

There are no victors in this, said Mr Delroy Lindsay, president of tbe Private Sector Organisation of Jamaica. "This appears to be e draw. Jamaica has made progress in structurally adjusting the economy, but it still has a far way to go. Inflation is too high, interest rates are too high and there is little growth."

Jamaica's relations with the IMF is e litany of repeated and protracted negotiations, agreements reluctantly implemented by successive governments because they were politically unpopular. IMF agreements became synonymous with the deterioration of the economy as governments fulminated against the Fund's conditions for the structural adjustment of the economy.

But the end to Jamaica's borrowing from the Fund has not coincided with any indication that the persistently wayward economy is settling down.

After 18 months of relative stability, the currency has depreciated by 16.5 per cent since July after a decline in foreign currency flows to banks. The central bank was forced to intervene by selling from its reserves. Economic expansion has been sluggish at just under one per cent in 1994. Mr Omar Davies, the finance minister, says 1995 is likely to have resulted in more of the same. "Growth will not be spectacular, but it will be positive," he said.

Mr Davies rejects suggestions that the economy is stagnant. "We are having lower levels of growth than we expected," he said. "This is not stagnation but low growth." The finance minister has done the unthinkable In Jamaican politics by publicly admitting to making errors which contributed to the current uncertainty In the business climate.

The prospects for Jamaica are limited and clear, economists and business leaders concur. A reversal of the deregulation would be damaging. "The government has done well in the macro-economic policies, but its management of some aspects has been inadequate," said Mr Lindsay. "Interest rates must come down, the currency allowed to find its own level, inflation will be lower and all other things will fall into place."

**Canute James**

# Conservative Abdullah takes reins of power

By Roula Khalaf

Saudi Arabia's Crown Prince Abdullah, yesterday entrusted with the running of the government by his half-brother King Fahd, has been described as more conservative than the king, less likely to accommodate the west and possibly prone to pumping less oil to raise prices.

However, as experts and diplomats were quick to point out, Saudi Arabia run by the crown prince is likely to follow the same economic and foreign affairs policies the west has become accustomed to under King Fahd.

If the king's health improves, the handing over of the running of the government may be no more than a temporary measure and, until Crown Prince Abdullah takes over for good, King Fahd will continue to have the final word on big decisions.

One of more than 30 surviving sons of the late King Abdul Aziz, the 71-year-old crown prince is known as a traditional bedouin who enjoys important ties to the tribes of Saudi Arabia. The fact that he had a different mother from the king's other powerful brothers has meant that be comes from a less prominent branch than the other sons of King Abdul Aziz.

But as the closest in age to King Fahd, he was named crown prince when the latter took over in 1982. Although this has been a source of rivalry with the rest of the clan, the sons of Abdul Aziz are known to stick together when times get rough.

The crown prince is well respected and known for a stutter which seems to disappear when giving public speeches. The bedouin base is his main source of strength. Since 1963, he has commanded the National Guard, a largely bedouin force which looks after internal security and acts as a counterweight to the army.

Citing his strong links to Syria and the Palestinians, as well as a reported reluctance to allow American troops to set up their base in Saudi Arabia during the 1990 Gulf war, the crown prince is believed to be less internationally minded than his half-brother. He is not known to speak English, for example, and has played a role in cultivating links with the Arab world.

This, however, say diplomats, is unlikely to have a bearing on the Kingdom's close ties to the west, especially the US. "The US alliance is a vital strategic alliance which the Saudis will not do much to change," a diplomat said yesterday.

Moreover, according to Saudi observers, the crown prince played a prominent part in drumming up public support within the Kingdom for the Gulf war.

"He is more decisive than the king but less reflective perhaps," said one veteran Saudi observer who knows the crown prince.

"The king is very cautious and tends to see procrastination as a virtue. Abdullah is less hesitant in his style and quicker to judge."

Such a style, said the observer, may translate into more forceful dealings with Islamic fundamentalists who have bombarded the kingdom with faxes from a propaganda base in London.

Islamic dissidents are also suspected of having perpetrated the November 13 bomb attack on a US-staffed Saudi National Guard communications centre in Riyadh.

As the 1996 budget unveiled yesterday suggests, economic reforms started in 1994 will continue. Faced with the collapse of oil prices, Saudi Arabia has had to clamp down on spending in recent years, give a larger role to the private sector and boost non-oil revenues.

In an address to the nation, Crown Prince Abdullah said: "No doubt you know the financial situation that emerged from the (1991) Gulf war and that your government had (earlier) promised to continue its treatment so matters could return to what they used to be - strength and balance."

The kingdom in recent years has been committed to keeping crude output at 8m barrels a day in order to avoid a repeat of the mid 1980s, when it was faced with falling prices and falling production. Diplomats said yesterday that the crown prince was in the 1970s believed to favour a policy of increased production but that they were confident the story would not hold today.

As reforms are pursued, however, diplomats said yesterday that for as long as the crown prince is only acting on behalf of the king, he will have to find a way to accommodate the king's other prominent brothers to minimise friction.

This may mean that in governing he will resort to consultation and seek the co-operation of from powerful members such as Prince Sultan, the defence minister, who is next in line for succession.

# Indonesia's conglomerates look to market forces

By Greg Earl in Jakarta

Indonesia's big conglomerates, long regarded as "crony capitalists" receiving government favours, are becoming much more dependent on market forces for their growth, according to a study.

The study of sales and asset growth of the country's top gronps, condncted by the Indonesian Business Data Centre, a private agency, also shows that 300 businesses are responsible for about half the country's gross domestic product.

The centre's director, Mr Christianto Wibisono, said the study showed a distinct move away from reliance on government-awarded licences for business growth in Indonesia. He said only 27 of the groups were now dependent on managed trading and monopoly arrangements although many of the larger groups had been established under those business conditions.

The 300 groups ere estimated to have increased sales by 15 per cent in 1994 to $74bn.

The figures point to some increased concentration in the hands of the largest groups with the 10 largest recording a 17 per cent increase in sales to $26bn. There were 31 groups with total sales of $350m, accounting for 55 per cent of total sales, whereas in 1993 there were estimated to have been 24 groups with that level of sales accounting for 49 per cent of total revenue.

Concentration is more evident on an assets basis with 56 groups controlling three quarters of the $118bn in total assets of the 300 businesses.

The dominance of the economy by people of Chinese descent is underlined by the fact that only 79 of the 300 groups are owned by ethnic Indonesians and 203 by non-ethnic Indonesians, predominantly Chinese.

While there are few surprises among the company's largest companies, several new players are fast emerging, with 11 groups estimated to have grown by 50 per cent in 1994.

# Talks to resume on US budget impasse

By Patti Waldmeir in Washington

US President Bill Clinton will meet congressional Republican leaders later today to resume talks on ending the protracted federal budget dispute, after extended negotiations over the New Year weekend failed to yield agreement either on balancing the budget, or on the more immediate problem of ending the partial government shutdown.

Mr Clinton and Republicans met throughout Saturday and Sunday, before recessing for New Year's Day. Both sides said no significant decisions were taken during those negotiations, which focused on outlining areas of disagreement.

But Mr Bob Dole, Senate majority leader, said negotiators were now ready to "start making the tough decisions". And there were signs of some flexibility from radical freshmen Republicans in Congress: several of them, interviewed on weekend television programmes, made clear that they were willing to compromise on the $245bn (£159bn) tax cut included in their plan, saying balancing the budget was more important than cutting taxes. Mr Clinton favours a much more modest tax cut.

Mr Mike McCurry, the White House spokesman, said today's negotiations would focus on "trade-offs" between cuts in healthcare spending, taxes and welfare needed to balance the budget over seven years, as agreed by both sides in November. There was no sign at the weekend that the two sides had resolved the basic philosophical dispute which underlies the budget impasse: whether to shift power away from the federal government to the states, as the Republicans want; and whether to curb guarantees of healthcare for the poor and elderly.

Both issues are likely to influence the outcome of this year's presidential election campaign, which will soon shift into top gear with a concentration of state presidential primary elections in February and March.

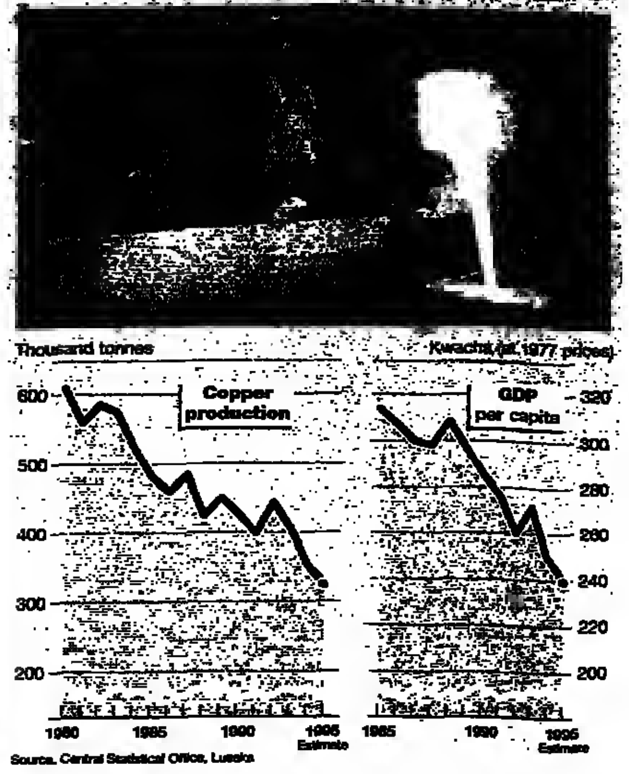
Parallel efforts will resume today to solve the more immediate problem of getting federal employees back to work, and ending the shutdown, which has already lasted more than a fortnight.

The President and First Lady spent New Year's Eve and Day away from the frustrations of the budget impasse, celebrating with 1,000 friends at the Hilton Head resort in South Carolina, where they attended a traditional New Year seminar to debate subjects such as "morals, manners, and today's pop culture" and "politics, media and the decline of civility".

# Rhodes' heirs return to Zambia's copper mines

## After 25 years of nationalisation, boardrooms in Johannesburg and London could again determine the development of its leading industry, reports **Tony Hawkins**

Copper mining in Zambia: Rhodes's commercial vision, long buried, may return




Source: Central Statistical Office, Lusaka

Cecil John Rhodes would have relished the irony. Twenty five years after Kenneth Kaunda, Zambia's founding president, nationalised the country's copper mines, the government of President Frederick Chiluba may be on the verge of taking the first step towards meeting its promise to put the industry back into the private sector.

Negotiations with Anglo American Corporation for a feasibility study for the development of the Konkola copper mining project are close to conclusion, say industry officials.

It would be a move as rich in symbolism as the 1969 takeover itself, seen at the time as heralding a new era for a country that was once little more than a fiefdom of Rhodes' British South Africa Company.

Rhodes' vision of the company blazing a commercial trail from the Cape to Cairo, in the name of an empire run by Englishmen, "is now buried – I hope and pray, never to rise again in this part of Africa," declared Mr Kaunda, architect of what turned out a disastrous socialist programme.

Once again, however, boardrooms in Johannesburg and London could determine the development of an industry still at the heart of Zambia's economy, accounting for more than 90 per cent of export earnings.

With reserves at the Nchanga copper mine, which supplies ore to the state-owned Zambia Consolidated Copper Mines (ZCCM), likely to be exhausted by the end of the decade, the government is under mounting pressure to give the go-ahead for the $600m (£390m) Konkola project.

Although widely anticipated, the decision to invite the South African mining house, which has a 27.3 per cent stake in ZCCM, to prepare a study and lead a consortium to develop the new mine will be controversial, not just because Anglo American is being invited back. The Konkola decision will also have far-reaching implications for the privatisation of ZCCM itself.

While Zambia's privatisation programme has accelerated in the past year – by the end of September, 87 out of 217 business units had been processed, resulting in a significant inflow of new investment and expertise – progress in dealing with the politically sensitive copper mining industry has been slow.

Whereas privatisation of dozens of small state-owned businesses has passed off with little controversy, the sale of the crown jewels, in the form of ZCCM, is a different matter, not least because Mr Kaunda is back on the campaign trail, preparing to contest next October's presidential elections.

United Nations Conference on Trade and Development figures, published last month in the World Investment Report, estimate an inflow of more than $350m in new foreign investment since the 1991 elections. In the last year a number of multinationals have returned to, or expanded operations in, Zambia by buying state-owned companies.

The list includes Tate & Lyle in sugar, Unilever and H.J. Heinz in food processing and toiletries, the Commonwealth Development Corporation in cement and agriculture, South African Breweries in brewing and Anglo American in hotels.

The net result is that Zambia attracted more foreign investment in 1991/94 than any other sub-Saharan country, except oil exporters Nigeria and Angola.

Nevertheless, the announcement of ZCCM's privatisation just months before elections may seriously damage the prospects of Mr Chiluba's Movement for Multiparty Democracy.

The past four years of structural adjustment have been extremely painful, with falling per capita incomes, rising unemployment, high inflation and interest rates and plummeting industrial production.

That all of this was necessary to turn around an economy brought to its knees by 27 years of mismanagement by Mr Kaunda's United National Independence party (UNIP) may count for little when voters come to cast their ballots.

Economic reform would have paid dividends far more rapidly had the privatisation programme, now beginning to show real results, been implemented both sooner and more efficiently; had the country not had two droughts; and, most important, had the copper mines been able to exploit a period of strong demand and high prices.

Figures for the first nine months of 1995 point to copper output of about 325,000 tonnes this year, down 8 per cent on 1994 and less than half the average of over 700,000 tonnes a year in the late 1960s.

In cost of production terms, ZCCM is in the top 10 per cent of global producers. Competitiveness will deteriorate further when costs grow as Nchanga nears the end of its economic life, and the industry suffers from the cumulative effects of undercapitalisation, inadequate skills, reinvestment and maintenance spending, and weak management.

If all goes to plan, Konkola will be developed as a joint venture between the government, whose contribution is likely to take the form of providing already existing smelting and refining capacity – thereby further weakening the rump of ZCCM itself – and a Anglo-led consortium, which may take some 60 per cent of the equity in the scheme.

While such an arrangement makes sound commercial sense, it will leave Mr Chiluba open to the criticism of privatising ZCCM by stealth.

An agreement in principle to develop Konkola, however, will reassure an increasingly restive donor community.

The response from the finance minister, Mr Ronald Penza, struck an equivocal note, speaking of the need for "the utmost caution" in privatising the mines.

"We must have the necessary political support," he said – which was interpreted by some donors as political shorthand for more delay.

# Sri Lanka's war euphoria fades

By Amal Jayasinghe in Colombo

The euphoria that erupted when Sri Lanka's military scored a significant victory last month over separatist Tamil rebels in their northern stronghold of Jaffna has sharply diminished with steep price increases coming into effect in the New Year to pay mounting war bills.

President Chandrika Kumaratunga yesterday promised to press ahead with a carrot-and-stick strategy to end more than two decades of ethnic violence which has claimed more than 50,000 lives.

"The economic cost of the war will have an all-round effect in terms of higher prices," Mr G.L. Peiris, deputy finance minister, said. "This is a war for peace, so there is no question that we have to find the resources for it."

The government estimates that the war against the Liberation Tigers of Tamil Eelam (LTTE) will cost $760m (£495m) this year, up from a provisional $640m in 1995.

The seemingly unending fighting was felt by the tiny Colombo Stock Exchange, which shed 33 per cent of its value during 1995. Amid falling foreign reserves, the Sri Lankan rupee depreciated by 8 per cent against the dollar in 1995.

Yesterday the government lifted a ban on local banks raising capital abroad, in an attempt to reduce domestic interest rates, which last month galloped to 105 per cent amid a cash flow crisis.

It is also raising telecommunications charges by 20 per cent, bus fares by 50 per cent and electricity tariffs by 20 to 100 per cent, depending on the rate of consumption.

However, Mr A.S. Jayewardena, the central bank governor, said the economic picture should improve in 1996, with foreign capital inflows expected to rise with the sale of state enterprises.

The government is hoping to attract $420m in foreign capital from privatisation, including the sale of the telecommunications operator and the national airline, AirLanka. The projections are considered too optimistic by private analysts.

Government politicians said the rising prices and the government's failure to turn the military success into a political victory had turned initial enthusiasm into despondency.

Despite the fall of Jaffna, the Tigers have shown that they are still able to carry out spectacular guerrilla attacks using suicide bombers. Army camps and convoys have been targeted by lone Tiger guerrillas laden with explosives.

Tamil men, women and children who fled the fighting in Jaffna are sheltered in areas of the country's north still under rebel dominance. The Tigers say they will not allow civilians to cross over to government-held areas of Jaffna.

Defence analysts say that eventually the guerrillas will have to allow civilians to return home because that would help the Tigers to go back to Jaffna and revert to hit-and-run attacks against the army.

The military on the other hand is ill-equipped to supply its 35,000strong force in Jaffna because all land routes to the region are dominated by the rebels. They depend on the minuscule air force and the navy.

Mr Anuruddha Ratwatte, deputy defence minister, said the army would soon open a land route to Jaffna. It would mean a fresh offensive that would cost many more lives, officials said, and the army was already bracing for it.

# Zedillo reshuffles cabinet

By Daniel Dombey in Mexico City

A year to the day after he lost his finance minister in the fall-out from Mexico's botched devaluation, President Ernesto Zedillo last week made further changes to a government still struggling with the unpopularity unleashed by the currency crisis.

Mr Ignacio Pichardo Pagaza, who as energy minister was criticised for links to the old guard of the ruling Institutional Revolutionary party, has been replaced, along with Ms Norma Samaniego, the country's comptroller general, who was thought to be keeping too low a profile to get to grips with Mexico's allegedly rampant corruption. Mr Carlos Salomón, the head of Mr Zedillo's press office and frequent target of complaints about the administration's news management at times when speculation about government changes unsettled the peso, has also been removed.

The alterations leave key economic posts unchanged and do not indicate any big shift in strategy. While the new energy secretary, Mr Jesús Reyes Heroles, spent much of the previous administration of President Carlos Salinas advocating a more interventionist economic approach, the new comptroller general, Mr Arsenio Farell, helped push through the wage-labour pacts that then provided the centrepiece of economic policy.

Mr Zedillo's supporters claim the alterations draw a line under the political difficulties of the government's first year and set the stage for further reform. But other observers deem the changes a tardy reaction to months of persistent criticism of Mr Zedillo's team.

"This is a defensive move. It does not take the initiative as a more thorough going reshuffle would have done," said Mr Juan Molinar, a politics professor at El Colegio de México, a graduate research institution.

Mr Zedillo does not face a nationwide electoral test until congressional elections due in 1997. But he can ill afford a repetition this year of 1995's election results, which saw the main right-wing opposition party establish control over roughly a third of local government, and win three of five governorship elections.

With the government predicting an economic recovery of only 3 per cent growth this year after a fall of 7 per cent in 1995, Mr Zedillo's new appointees will find themselves the focus of added attention in their tasks of managing the government's relationship with the press, reducing bureaucratic profligacy and reforming and attracting new investment to the country's energy sector.



## INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

**UNITED STATES**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 101.9 | 98.6 | 102.1 | 99.4 | 85.0 |
| 1987 | 105.8 | 100.7 | 103.9 | 98.7 | 78.2 |
| 1988 | 109.8 | 103.2 | 106.8 | 99.1 | 71.0 |
| 1989 | 115.2 | 108.5 | 109.9 | 101.1 | 75.1 |
| 1990 | 121.5 | 113.9 | 113.5 | 104.3 | 73.4 |
| 1991 | 126.6 | 115.3 | 117.3 | 107.6 | 74.0 |
| 1992 | 130.4 | 117.7 | 120.1 | 108.4 | 74.0 |
| 1993 | 134.3 | 119.2 | 123.1 | 107.7 | 76.3 |
| 1994 | 137.8 | 119.9 | 126.5 | 106.1 | 74.2 |
| 4th qtr.1994 | 2.7 | 1.3 | 2.4 | -2.9 | 71.6 |
| 1st qtr.1995 | 2.8 | 1.7 | 2.1 | -2.1 | 70.2 |
| 2nd qtr.1995 | 3.1 | 2.1 | 2.3 | -1.2 | 66.5 |
| 3rd qtr.1995 | 2.6 | 1.8 | 2.7 | -0.6 | 68.8 |
| December 1994 | 2.7 | 1.7 | 2.2 | -3.2 | 72.6 |
| January 1995 | 2.8 | 1.7 | 2.2 | -3.1 | 71.8 |
| February | 2.9 | 1.7 | 2.0 | -1.7 | 70.9 |
| March | 2.8 | 1.8 | 2.2 | -1.4 | 66.2 |
| April | 3.0 | 2.1 | 2.3 | -1.4 | 66.2 |
| May | 3.2 | 2.2 | 2.2 | -1.2 | 66.8 |
| June | 3.0 | 2.1 | 2.3 | -1.1 | 66.1 |
| July | 2.8 | 1.7 | 2.6 | -0.6 | 66.8 |
| August | 2.6 | 1.3 | 2.6 | -0.5 | 68.8 |
| September | 2.5 | 1.8 | 2.8 | -0.7 | 70.1 |
| October | 2.8 | 2.1 | 2.7 | | |
| November | 2.6 | 2.0 | | | |

**JAPAN**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 100.6 | 95.3 | 101.4 | 102.8 | 118.4 |
| 1987 | 101.3 | 92.5 | 103.1 | 100.1 | 122.9 |
| 1988 | 102.4 | 92.3 | 107.8 | 96.9 | 130.9 |
| 1989 | 104.6 | 94.2 | 114.0 | 96.8 | 125.8 |
| 1990 | 108.4 | 95.7 | 120.1 | 99.8 | 108.5 |
| 1991 | 111.9 | 96.8 | 124.3 | 104.0 | 114.5 |
| 1992 | 114.0 | 95.6 | 125.6 | 112.8 | 115.9 |
| 1993 | 115.4 | 94.3 | 125.8 | 118.9 | 133.6 |
| 1994 | 116.2 | 92.6 | 128.5 | 118.5 | 139.2 |
| 4th qtr.1994 | 0.8 | -1.1 | 2.4 | -4.3 | 139.4 |
| 1st qtr.1995 | 0.0 | -0.8 | 2.0 | -4.0 | 140.8 |
| 2nd qtr.1995 | -0.1 | -0.5 | 2.2 | -3.4 | 153.7 |
| 3rd qtr.1995 | -0.2 | -0.7 | 3.7 | -0.3 | 136.8 |
| December 1994 | 0.5 | -0.9 | 1.4 | -4.8 | 138.6 |
| January 1995 | 0.5 | -0.9 | 4.8 | -3.2 | 137.4 |
| February | 0.0 | -0.8 | 3.7 | -5.2 | 138.4 |
| March | -0.4 | -0.5 | 2.4 | -4.6 | 145.0 |
| April | -0.2 | -0.4 | 3.5 | -4.5 | 155.3 |
| May | -0.1 | -0.5 | 3.5 | -3.7 | 152.8 |
| June | 0.0 | -0.8 | 0.8 | -2.0 | 153.0 |
| July | -0.1 | -0.7 | 6.4 | -0.3 | 147.3 |
| August | -0.4 | -0.7 | 0.3 | -0.2 | 138.2 |
| September | -0.1 | -0.8 | 2.4 | -0.4 | 130.2 |
| October | -0.9 | -0.6 | 2.1 | | |
| November | -0.8 | | | | |

**GERMANY**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 99.9 | 97.5 | 103.5 | 103.8 | 107.4 |
| 1987 | 100.1 | 95.0 | 107.9 | 107.1 | 110.8 |
| 1988 | 101.4 | 96.2 | 112.6 | 106.8 | 109.8 |
| 1989 | 104.2 | 99.3 | 117.1 | 108.0 | 105.3 |
| 1990 | 107.0 | 101.0 | 123.5 | 110.3 | 107.6 |
| 1991 | 110.8 | 103.4 | 131.3 | 115.0 | 105.1 |
| 1992 | 116.6 | 104.9 | 138.2 | 121.5 | 107.5 |
| 1993 | 121.7 | 105.1 | 145.8 | 125.9 | 108.8 |
| 1994 | 125.1 | 105.7 | 150.8 | 116.1 | 107.4 |
| 4th qtr.1994 | 2.6 | 1.3 | 2.9 | -7.8 | 108.9 |
| 1st qtr.1995 | 2.0 | 1.7 | 1.9 | | 112.4 |
| 2nd qtr.1995 | 1.9 | 1.8 | 3.8 | | 114.0 |
| 3rd qtr.1995 | 1.7 | 1.8 | | | 112.8 |
| December 1994 | 2.5 | 1.8 | n.a. | -6.4 | 109.0 |
| January 1995 | 2.2 | 1.6 | n.a. | | 110.7 |
| February | 2.0 | 1.8 | n.a. | | 111.4 |
| March | 1.8 | 1.8 | n.a. | | 114.8 |
| April | 1.9 | 2.0 | n.a. | | 115.0 |
| May | 1.8 | 1.9 | n.a. | | 113.5 |
| June | 2.0 | 2.0 | n.a. | | 113.4 |
| July | 1.8 | 2.0 | n.a. | | 113.0 |
| August | 1.7 | 1.8 | n.a. | | 111.9 |
| September | 1.8 | 1.9 | n.a. | | 111.9 |
| October | 1.8 | 1.6 | n.a. | | |
| November | 1.7 | | | | |

**FRANCE**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 102.5 | 97.2 | 104.5 | 101.8 | 103.4 |
| 1987 | 105.9 | 97.8 | 107.8 | 103.0 | 104.8 |
| 1988 | 108.8 | 102.8 | 111.1 | 104.1 | 102.1 |
| 1989 | 112.6 | 108.4 | 115.4 | 105.2 | 100.1 |
| 1990 | 116.5 | 107.1 | 120.6 | 109.6 | 103.4 |
| 1991 | 120.2 | 105.8 | 125.8 | 113.4 | 101.1 |
| 1992 | 123.1 | 104.0 | 130.3 | 115.8 | 104.7 |
| 1993 | 125.6 | 101.1 | 133.7 | 118.1 | 107.0 |
| 1994 | 127.7 | 102.5 | 136.7 | | 106.5 |
| 4th qtr.1994 | 1.6 | 5.3 | 2.1 | | 105.8 |
| 1st qtr.1995 | 1.7 | 0.7 | 2.0 | | 106.4 |
| 2nd qtr.1995 | 1.6 | 1.1 | 2.0 | | 105.7 |
| 3rd qtr.1995 | 1.8 | -0.2 | | | 107.1 |
| December 1994 | 1.6 | n.a. | n.a. | n.a. | 106.2 |
| January 1995 | 1.7 | n.a. | n.a. | n.a. | 105.7 |
| February | 1.7 | n.a. | n.a. | n.a. | 105.9 |
| March | 1.8 | n.a. | n.a. | n.a. | 107.5 |
| April | 1.6 | n.a. | n.a. | n.a. | 108.3 |
| May | 1.6 | n.a. | n.a. | n.a. | 108.8 |
| June | 1.6 | n.a. | n.a. | n.a. | 108.3 |
| July | 1.5 | n.a. | n.a. | n.a. | 106.7 |
| August | 1.9 | n.a. | n.a. | n.a. | 107.1 |
| September | 2.0 | n.a. | n.a. | n.a. | 107.3 |
| October | 1.8 | n.a. | n.a. | n.a. | |
| November | 1.9 | n.a. | n.a. | n.a. | |

**ITALY**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 105.1 | 100.2 | 104.8 | 102.7 | 101.3 |
| 1987 | 111.0 | 103.2 | 111.6 | 105.1 | 102.1 |
| 1988 | 116.5 | 106.6 | 118.4 | 109.7 | 100.9 |
| 1989 | 124.2 | 113.1 | 125.6 | 112.3 | 105.7 |
| 1990 | 131.8 | 117.8 | 134.7 | 118.8 | 112.5 |
| 1991 | 140.3 | 121.7 | 147.9 | 129.5 | 113.6 |
| 1992 | 147.7 | 124.0 | 155.9 | 134.5 | 110.0 |
| 1993 | 153.8 | 128.7 | 161.6 | 136.7 | 95.7 |
| 1994 | 160.0 | 133.5 | 167.0 | 137.8 | 93.2 |
| 4th qtr.1994 | 3.8 | 4.8 | 2.9 | -0.4 | 92.7 |
| 1st qtr.1995 | 4.4 | 6.5 | 2.5 | 0.4 | 89.9 |
| 2nd qtr.1995 | 5.5 | 8.8 | 2.3 | | 87.7 |
| 3rd qtr.1995 | 5.8 | 9.6 | 3.6 | | 92.9 |
| December 1994 | 4.1 | 5.4 | 3.0 | n.a. | 92.1 |
| January 1995 | 3.9 | 5.6 | 2.8 | n.a. | 92.6 |
| February | 4.3 | 6.3 | 2.4 | n.a. | 91.9 |
| March | 4.9 | 7.5 | 2.3 | n.a. | 85.7 |
| April | 5.2 | 8.2 | 2.3 | n.a. | 84.0 |
| May | 5.5 | 9.0 | 2.3 | n.a. | 89.0 |
| June | 5.8 | 9.2 | 2.2 | n.a. | 89.6 |
| July | 5.6 | 9.2 | 3.5 | n.a. | 92.0 |
| August | 5.8 | 9.0 | 3.4 | n.a. | 93.7 |
| September | 5.8 | 8.7 | 3.9 | n.a. | 94.7 |
| October | 5.8 | | 3.9 | n.a. | |
| November | 6.0 | | | n.a. | |

**UNITED KINGDOM**

| | Consumer prices | Producer prices | Earnings | Unit labour costs | Real exchange rate |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1986 | 103.4 | 101.4 | 107.7 | 105.1 | 94.3 |
| 1987 | 107.7 | 104.9 | 116.3 | 107.5 | 94.5 |
| 1988 | 113.0 | 108.7 | 126.2 | 110.5 | 102.3 |
| 1989 | 121.8 | 113.9 | 137.2 | 115.1 | 101.7 |
| 1990 | 133.3 | 121.0 | 150.1 | 122.7 | 102.9 |
| 1991 | 141.2 | 127.5 | 162.4 | 129.5 | 106.1 |
| 1992 | 146.4 | 131.5 | 173.1 | 130.5 | 103.0 |
| 1993 | 148.7 | 136.7 | 180.9 | 130.4 | 95.1 |
| 1994 | 152.4 | 140.1 | 189.5 | 130.4 | 96.4 |
| 4th qtr.1994 | 2.6 | 2.5 | 5.2 | -0.3 | 96.0 |
| 1st qtr.1995 | 3.4 | 3.8 | 5.0 | 2.0 | 94.2 |
| 2nd qtr.1995 | 3.4 | 4.2 | 4.7 | 3.1 | 91.0 |
| 3rd qtr.1995 | 3.7 | 4.4 | 4.3 | 3.7 | 91.0 |
| December 1994 | 2.9 | 2.8 | 5.3 | 2.1 | 95.9 |
| January 1995 | 3.3 | 3.5 | 4.6 | 2.2 | 95.9 |
| February | 3.4 | 3.6 | 5.8 | 2.5 | 94.4 |
| March | 3.5 | 3.8 | 4.8 | 1.2 | 92.5 |
| April | 3.3 | 4.2 | 5.2 | 2.8 | 91.2 |
| May | 3.4 | 4.2 | 4.5 | 3.4 | 91.0 |
| June | 3.5 | 4.2 | 4.4 | 3.0 | 90.8 |
| July | 3.5 | 4.5 | 4.8 | 4.0 | 90.4 |
| August | 3.6 | 4.4 | 4.2 | 3.4 | 91.2 |
| September | 3.9 | 4.4 | 3.9 | 3.6 | 91.5 |
| October | 3.2 | 4.4 | 3.8 | 4.1 | |
| November | 3.1 | 4.3 | | | |

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

# FT Guide to 1996

## January

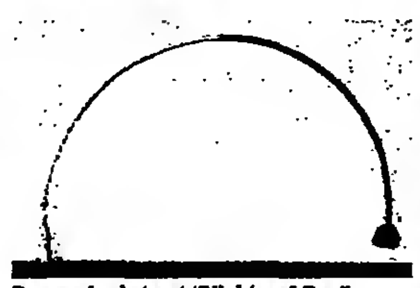
**1st** Italy takes over the presidency of European Union, the EU's customs union with Turkey starts, and Copenhagen begins its term as European Cultural Capital. Austria celebrates its 1,000th anniversary as a nation this year.
**8th** The return of George Michael, whose new single, *Jesus To A Child*, goes on sale today. It is his first release since he ended his contract with Sony Music, and also the first record release for DreamWorks, run by its billionaire co-founder, David Geffen.
**12th–17th** Fifth World Hot Air Airships Championships in Aosta, Italy.
**14th** Portuguese presidential elections – first round. Outgoing President Mario Soares, who is completing his second five-year term, cannot stand again.
**17th** Silvio Berlusconi, leader of the Forza Italia movement, goes on trial in Milan, charged with bribing officials of the Guardia di Finanza (financial police). A guilty verdict could destroy Forza Italia and damage the right-wing alliance of which it is the core.
**19th** Annual summit of Comesa (Common Market of Eastern and Southern Africa) in Windhoek.
☐ Japan–US aviation talks in Tokyo.
**20th** Palestinians elect their own assembly for the first time in history. Over a million registered voters in Gaza and the West Bank will choose a legislative council and a president of the council. Yassir Arafat leads the betting to become president. His Fatah party is expected to do less well, but will almost certainly emerge as the single biggest bloc.
**21st** The approximate start of Ramadan, the Islamic month of fasting. The precise timing depends on tha first sighting of the crescent moon. Office hours in some countries are limited.
**23rd** Another Milanese corruption trial. Giorgio Armani, Gianfranco Ferre and other Italian fashion stars face the court charged with corruption over allegations

World airships championships in Aosta

that fashion houses paid tax inspectors for lenient audits.
**28th** Superbowl XXX in Phoenix closes the American football season.

## February

**1st–6th** The annual gathering of the political and business clans at the World Economic Forum in Davos, Switzerland.
**2nd** Daiwa Bank due to withdraw from the US for concealing bond trading losses.
**7th** Haiti continues its crawl towards democracy, as President Jean-Bertrand Aristide hands over power to Mr René Préval, his ideological clone, who won the December election. But Mr Aristide is not ready for retirement and will stand again in 2000.
**9th** A look at one of the few artistic phenomena to have run the course of the century: "Abstraction in the 20th century: Total Risk, Freedom, Discipline", an exhibition at New York's Guggenheim Museum until May 12.
**14th** The cricket World Cup starts, to be played in India, Pakistan end Sri Lanka. Traditionally the World Cup chains most of south Asia to the television set while evoking only modest interest elsewhere.
☐ Now is the time to claim that you are the long lost heir to the Tsarist crown. At New York's Metropolitan Museum from the 16th, the exhibition Fabergé in America features Imperial Easter Eggs commissioned by the last Tsars. Later in February, the remains of Russia's final Tsar, Nicholas II, will be buried in St Petersburg.
**18th** Polish referendum on methods of privatisation.
**19th** The Chinese Year of the Rat begins. Rat years have been auspicious for Japanese stock prices.
**20th** A good day for rice growers outside Indonesia. This year Idul Fitri, the celebration at the end of Ramadan, the Islamic fasting month, falls before the main Indonesian rice harvest is completed. Rice demand peaks during Idul Fitri, so the country's rice bowl managers are scouring the world for supplies.
**20th** New Hampshire opens the US presidential primary season proper, though Iowa will have chosen the first delegates in party caucuses on February 12. Bill Clinton is unopposed on the Democratic side so the main interest centres on whether any Republican can stop Senator Bob Dole. After New Hampshire the primaries come thicker, faster and earlier than ever, with 24 states holding them by March 26. The two main parties' nominations could thus be decided by Easter.



Puryear's abstract "Night and Day"

## March

**1st–2nd** Heads of state meet for the first ever Asian-EU Summit in Bangkok.
**2nd** Alan Greenspan's second four-year term as chairman of the Federal Reserve Board expires. President Bill Clinton will probably nominate him for a third term, in order to minimise disruption in the financial markets during the election campaign.
**3rd** Spain holds general elections a year before schedule, with the conservative Popular party expecting its first crack at government. Knee-deep in scandals, Felipe González's minority Socialist government could not postpone the day any longer, as its allies have walked out. But González is still a man to watch, and the outcoma could be closer than the conservatives think.
**8th** United Nations troops to leave Rwanda.
☐ Japan's budget to be passed at an ordinary parliamentary session.

Felipe González faces Spanish elections

**15th–17th** Swedish Prime Minister Ingvar Carlsson formally hands over power to his successor Goran Persson at a Social Democratic party congress.
**16th–17th** Robert Mugabe seeks a new term in Zimbabwean presidential elections.
☐ Gianni Agnelli, 74, is expected to hand over as Fiat chairman to Cesare Romiti, 72, perhaps some time around Agnelli'a 75th birthday on March 12. Romiti, only the second non-family chairman in Fiat'a history, will preside over an interregnum, probably preparing for the fourth generation: Giovanni Alberto, Gianni'a nephew.
**23rd** Taiwan holds its first presidential election by universal suffrage.
**25th–27th** Inter-American Development Bank annual meeting in Buenos Aires.
**29th** The EU'a inter-governmental conference to review the Maastricht treaty opens in Turin. The conference later switches to monthly meetings between EU foreign ministers. The IGC will consider beefing up the EU's common foreign and security policy, and extending powers to the European Parliament. Germany is leading calls for more majority voting, but the UK is resisting. Insiders therefore predict an IGC deadlock in late 1996, followed by an agreement with a new government after the UK general election, to be held by April 1997.

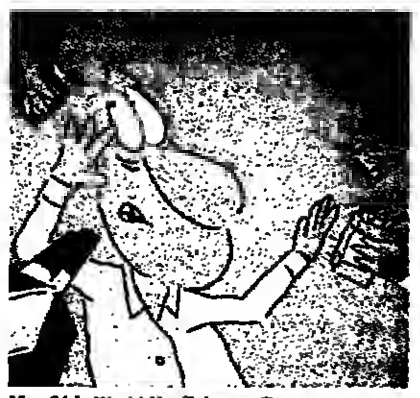
## April

**1st** The world's largest bank, the newly merged Bank of Tokyo–Mitsubishi, opens. The bank will not just be big – by Japanese standards it will also be financially strong, with one of the lowest proportions of non-performing loans on its balance sheet and a wide presence in international markets.
The merger is expected to herald a broader consolidation of the Japanese banking industry, as the other large banks seek partners to enable them to compete with the new giant.
**1st** Chine plans to slash import tariffs on 4,000 items to an average 23 per cent in its quest for WTO membership.
**9th–12th** International Atomic Energy Agency conference in Vianna on 10 years after the Chernobyl disaster
**11th** Uniquely in recent European history, a former prime minister goes on trial charged with complicity in a murder. Giulio Andreotti of Italy faces a Perugia court over the death in 1979 of the journalist Mino Pecorelli.
**11th–12th** US Masters golf in Augusta
**14th** South Korean parliamentary elections
**15th–16th** European Bank for Reconstruction and Development annual meeting in Sofia.
**15th–16th** Ministerial meeting between the EU and Rio Group countries in Cochabamba, Bolivia.
**16th–18th** President Clinton visits Japan.
**20th** to May 11th Unctad four-yearly conference in Midrand, South Africa. The heads of state of 187 countries are invited.
**21st** Queen Elizabeth II turns 70
☐ India will probably go to the polls in April for a general election unlikely to deliver a strong, single party government. The campaign will be dominated by opposition allegations of Congress party corruption. Congress will portray the right-wing, Hindu nationalist Bharatiya Janata party as being divisively based on religion. Economic issues may not feature heavily, aside from BJP appeals to "economic nationalism".
**30th** Deadline for completing negotiations on liberalising basic telecommunications services, under auspices of the World Trade Organisation.

Bearing ballots for an Indian election

## May

**9th** The day by which South Africa has to unveil its new constitution. Among the issues to be resolved are whether there will still be a government of national unity and the powers of the provinces.
**9th–20th** The Cannes Film Festival
**16th** The Dominican Republic votes in a presidential election which, for the first time in 30 years, will involve neither Joaquín Balaguer nor Juan Bosch, the two octogenarians who have dominated the country's politics. Mr Bosch has retired because of poor health, while Mr Balaguer cannot stand for a seventh term because changes in the constitution prevent consecutive terms.
**17th** The trial of Timothy McVeigh and Terry Nichols for the Oklahoma City bombing of 1995 is due to open.
**17th** to August 25th. The Glyndebourne Festival Opera in southern England. The pick of the 1996 festival will be Handel's "Theodora" and Berg's "Lulu".



May 31 is World No-Tobacco Day

**21st–22nd** Organisation for Economic Co-operation and Development annual meeting of finance, foreign and trade ministers.
**22nd** Degas: Beyond Impressionism exhibition. Degas achieved fame with his work of the 1870s and 1880s, above all with pictures of the ballet and the racecourse, but his experimental later work has never been properly studied, and this will be the first big show devoted to it. It runs at the National Gallery, London, until August 26, and moves to the Art Institute of Chicago in September.
**22nd** World Health Organisation publishes the World Health Report, which is expected to highlight the danger of bacterial resistance to drugs. Such infections as tuberculosis and gonorrhea have become resistant to drugs and have outpaced the development of antibiotics to control them.
**22nd–24th** The African Development Bank annual meeting in Abidjan.
**31st** The World Health Organisation marks World No-Tobacco Day.
**31st–June 1st** The Czech Republic's first general election since its "velvet divorce" from Slovakia in 1992. The centre-right Prime Minister Vaclav Klaus leads the polls.

## June

**5th** Opec general conference in Vienna.
☐ Vietnam's eighth Communist party congress is due to take place in Hanoi this month.
**8th–30th** European Championship soccer. Can the persistently mediocre England team use home advantage to win its first important trophy in 30 years? The game against the Netherlands should be testing, and the one against Scotland colourful. The match with the least tourist potential is Bulgaria versus Romania in Newcastle. The Germans, the Italians and the Dutch are the best bets to win the championship, and the Turks are the worst.
**10th** Annual meeting of the Bank for International Settlements (BIS), attended by central bankers from around the world.
☐ The Italian general elections, expected this February, May, June or sometime later. It is a mystery when Italy's political parties will agree to hold the early polls. If the elections are not held in the first half

England's 1966 soccer world cup win

of 1996, the life of parliament will probably be prolonged until the spring of 1997.
**16th** Scheduled date for the Russian presidential elections, and the year's most likely source of political shock. The Russian constitution vests vast powers in the presidency, and some analysts fear that a Communist candidate, or, even worse, an ultra-nationalist, may win. However, businessmen and politicians close to Russian President Boris Yeltsin are already urging him to postpone the poll. Will Yeltsin be fit to fight?
**21st–30th** Gays and lesbians hold the Europride conference in Copenhagen.
**22nd–23rd** EU summit of heads of state and government in Florence.
**24th** The Wimbledon tennis tournament starts, and the search for British heroes (anyone who reaches the second round) is on.
**27th–29th** Heads of government and finance ministers from the Group of Seven leading industrial countries gather in Lyons tor their annual economic summit. In recent years the G7 has tried to scale back the pomp and ceremony which accompanies these jamborees, but it is not yet clear that President Jacques Chirac, the host, will be able to resist arranging something spectacular. France, which is chairing the G7 in 1996, wants the meeting to concentrate on development, while the leaders are also expected to use the meeting to accelerate reform of United Nations institutions.
**30th** Hong Kong enters its last year under British rule.

## July

**1st** Ireland takes over the EU presidency.
**7th–12th** Eleventh International Conference on Aids in Vancouver.
**19th** The Proms. The world's biggest music festival enters its second century under new director Nicholas Kenyon. At London's Royal Albert Hall until September 14.
**19th** The centenary edition of the modern Olympics meets a steamy southern summer in Atlanta, Georgia, which perhaps explains why the most sought-after seats have been for the swimming and diving competitions. Going on the off-chance is not advised since just about all tickets are long gone by lottery or to sponsors. A total of 26 sports will be on display, with only women's softball as a newcomer (don't sniff, the fastballs come in at 90mph). Some refinements elsewhere: for instance, mountain bikes have been added to the cycling classification. The Games end on August 4.
**20th** The Salzburg Festival, until August 31. Of the three new opera productions, the most intriguing is Beethoven's "Fidelio", which pairs octogenarian conductor Georg Solti with radical German producer-designer Herbert Wernicke. The other show to catch is the Pierre Boulez-Peter Stein production of Schoenberg's "Moses und Aron".
☐ Some time this summer Stanley Kubrick, one of Hollywood's most influential but least productive film makers, starts shooting *Eyes Wide Shut* starring Tom Cruise and Nicole Kidman in London. Kubrick, a legendary figure in the film world, has written, directed and produced a string of successes from *2001: A Space Odyssey* to *Dr Strangelove*. He is a notorious perfectionist - the actor Jack Nicholson said he "gives new meaning to the word meticulous" - and has not made a film since *Full Metal Jacket* in 1987.
**31st** Japan-US semiconductor accord to expire.

Spyridon Louis, marathon winner in the first modern Olympics 100 years ago

## August

**11th–31st** The 50th Edinburgh International Festival. Productions by Robert Wilson, Robert Lepage and Peter Stein, orchestras from Cleveland, Moscow, New York and Oslo, plus Houston Grand Opera.
**12th** Liberian presidential and parliamentary elections scheduled.
**12th–15th** US Republican party national convention in San Diego, California, followed from August 27 to 29 by the Democratic party national convention in Chicago, Illinois. Both are later than usual because of the Olympics. The main order of business for both is to crown candidates for president and vice president, with the latter usually providing what suspense there is. But conventions, by also endorsing party platforms, can set a tone for the autumn campaign for the White House. The harsh rightwing notes sounded by the Republicans in Houston in 1992 got George Bush off on the wrong foot, while the left's anti-war riots in Chicago in 1968 gave Hubert Humphrey a handicap he never overcame. Party managers try to script convention business to the last minute, ensuring that candidates get maximum exposure, but perfect discipline is often hard to impose on committed delegates.

Al Gore and Bill Clinton run again in 1996

**16th** Indonesia's President Suharto delivers the annual State of the Nation address, marking his country's Independence Day on August 17. He is not a man for saying a lot in public, so few of his citizens will watch anything else on television today. This year's speech will be more interesting than most, because Mr Suharto will outline how he thinks the country should behave as it prepares for the five-yearly elections which begin in 1997. Deciphering a speech from the man who has run the country for 28 years usually requires the delphic qualities of a Javanese dukun. But identifying who he thinks should win the elections shouldn't be difficult.
**19th** Bill Clinton turns 50. If he loses the White House in November, he faces the prospect of a great many rounds of golf.
**25th–26th** London celebrates the 31st Notting Hill Carnival. On the second day, Britain takes a summer Bank Holiday.

## September

**1st** The second anniversary of the IRA ceasefire, if peace holds in Northern Ireland.
**9th** The 20th anniversary of Mao's death will be cause for cautious recognition by the Chinese Communist party, which has a deep fear that anniversaries will be turned into occasions for popular protest. Even the party faithful have mixed views about Mao - he is officially reckoned to have been "70 per cent right, 30 per cent wrong" in his role as the Great Helmsman.
**9th–13th** Britain's Trades Union Congress holds its annual conference in Blackpool.
**14th** Jewish New Year 5757 starts.
**17th** United Nations General Assembly opens in New York.
**19th** Fiftieth anniversary of Winston Churchill's call for a "United States of Europe".
**20th–22nd** The Pope visits France.
**30th** Crunch time arrives for Spain's prospects for joining the European single currency. This is the deadline for submitting the crucial 1997 budget. The Euro was launched in Madrid, but Spain won't be a founding member unless the government – possibly a new conservative administration – manages to slash the public sector deficit. Not that Spain is the only EU member facing this particular problem.
**30th** The British Labour's party conference runs in Blackpool until October 4. If Labour can avoid turbulence, it will surely romp home in 1997 – or possibly earlier. This means that the party's detailed tax plans are expected to be kept in reserve until the last minute, while the conference will only be asked to rubber stamp the final elements of Labour's policy review, including a long-awaited statement on social security reforms. Tony Blair should already be profiting from two by-election victories early in the New Year, and will attempt to exploit the government's vanishing majority on key issues such as Europe.

Tony Blair, Britain's Labour leader

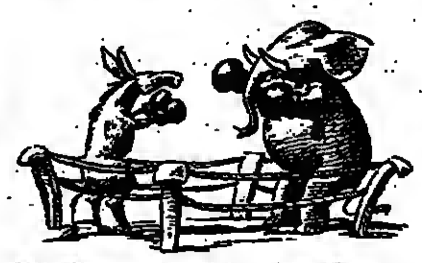
## October

**1st–3rd** The annual meetings of the IMF and World Bank in Washington.
**8th–11th** The British Tory party conference in Bournemouth. Possibly John Major's last as prime minister, so pretenders will bid for the succession.
**15th–29th** British International Motor Show at the National Exhibition Centre near Birmingham. The days of bikini-clad models draped across shiny bonnets at motor fairs have generally given way to sober salesmanship. This show opens to the public from October 18.
**16th** Organisers of 1995's Million Man March are planning a Million Family March in Washington for today.
**29th** Last possible date for Israeli elections to be held.
**29th** The winner of the Booker Prize, Britain's most prestigious literary award, is named in London. Expect critical face-gouging. Last year, super-heavyweight Salman Rushdie (4-5 favourite for *The Moor's Last Sigh*) was stylishly outpointed by fast-punching middleweight Pat Barker (5-1; *The Ghost Road*). Things can only get bloodier.
**30th** Helmut Kohl will have been German chancellor for 5,144 days, as long as Konrad Adenauer, who took the job in 1949 aged 73. Having outrun his idol, Mr Kohl must hang on until 2001 to become the longest serving chancellor ever, upstaging Bismarck, who held office for 6,940 days from 1871 to 1890. Will he make it? Mr Kohl says he expects to quit in 1998. But Der Spiegel, the news magazine Mr Kohl refuses to read, already calls him "Bismarck in a cardigan".

Helmut Kohl chases Adenauer and Bismarck to become Germany's longest serving Chancellor

## November

**5th** US election day - for president and vice president, all 435 seats in the House of Representatives and 33 in the Senate, plus a full card of state and local races. This could be a pivotal election if Republicans win the White House and hold on to majorities in Congress. Bill Clinton is still favourite for a second term, but not by much. With eight of 15 incumbent Democrats not seeking re-election, Republicans hope to increase their current 53 seats in Senate to a filibuster-proof 60. The House, now with 236 Republicans, is often more volatile. Voter turn-out may approach 60 per cent only if the field is fleshed out by interesting independent or third party candidates (Ross Perot helped lift it to 55 per cent in 1992).
**10th–12th** The Confederation of British Industry annual conference in Harrogate.
**11th** Germans begin their annual goose-eating binge. Germany may be a highly developed industrial nation, but it still fusses over customs and likes to observe saints' days, possibly because these have developed a commercial momentum. The feast day in this case is St Martin's, and the carnival starts in the Rhineland at 11.11am.

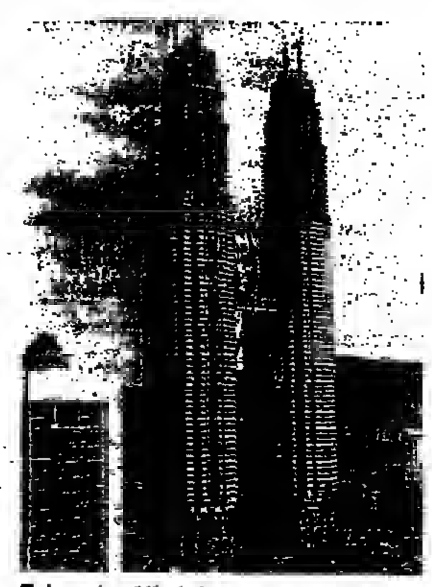


The US election could be a rough fight

**13th–17th** The UN Food and Agriculture Organisation's World Food Summit in Rome. Heads of state and government meet from November 16 to 17.
**26th** Kenneth Clarke, the British chancellor, will deliver his fourth Budget or Gordon Brown, the shadow chancellor, will deliver his first. If Mr Clarke is still at Number 11, the 1996 Budget should be much like 1995's: modest tax cuts paid for with modest cuts in public spending plans. If Mr Brown has moved in, the content is less clear. Not only has Labour avoided revealing much about its tax plans, but Mr Brown may discover that Mr Clarke has left him little room for manoeuvre. Incoming governments traditionally say they have had to scale back their plans because "the books have been left in much worse shape than we expected".
☐ The Bibliothèque Nationale de France, dubbed the "très grande bibliothèque", is scheduled to open to the public in Paris late this month. Approved by former President François Mitterrand in 1988, and built at a cost of FFr8bn, four angled tower blocks symbolise open books, surrounding a suspended garden. The public will have access to 400,000 books.

## December

**6th–7th** EU summit in Dublin. The Netherlands takes over at the start of 1997.
**9th–13th** Singapore hosts the first World Trade Organisation ministerial meeting.
**10th** The Nobel peace prize is awarded in Oslo.
☐ On a date in December yet to be fixed, the US Electoral College meets to certify the results of the November election. The winner in the national popular vote can still lose the election if his opponent carries states with a majority in the Electoral College. These are apportioned, winner-take-all, according to state population, ranging from California's 54 delegates to three each for various smaller states.
☐ The world's tallest office buildings are due to be completed in the centre of Kuala Lumpur in 1996, and to be dedicated this month. At 450 metres, the twin Petronas Towers will be slightly taller than Chicago's Sears building. The project forms part of the plan of Dr Mahathir Mohamad, the prime minister, to turn Malaysia into a fully industrialised country by 2020. Opponents accuse him of indulging in grandiose schemes of questionable economic benefit. Furthermore, they add, the towers will soon be overtaken by Far Eastern rivals.
☐ Russian economists and western agencies have predicted that 1996 will be the first year that Russia's nascent market economy experiences positive growth. The Organisation for Economic Co-operation and Development, for instance, forecasts a growth rate of 2 per cent. An economic upswing could boost the flagging political fortunes of Russian reformers; on the other hand, political instability could still undermine the country's economic prospects.
☐ Some time towards the end of 1996, or otherwise early in 1997, 10m savers and borrowers with Britain's Halifax Building Society will get free Halifax shares when the society floats.



Twin peaks of Kuala Lumpur, ready in 1996

هكذا من الاصل

# Fishing dispute is diluted into a war of words

By Bernard Gray in London

The Lindisfarne, a British government fisheries protection vessel, yesterday moved into the controversial Irish Box fishing area between western England and Ireland, on patrol to mark the first day that Spanish trawlers were legally entitled to work in the disputed zone.

Also on standby to monitor the situation were three commercially chartered patrol aircraft which are used to oversee fishing fleets in British waters.

However, in spite of predictions of confrontation, none of the 20 Spanish boats which have so far registered to work in the Irish Box appeared. Britain's Ministry of Agriculture, Fisheries and Food pointed to the holiday season as a possible explanation and added that fishing conditions were not particularly favourable in the area at present.

Meanwhile, arguments continued to rage yesterday between British politicians about the agreement which allows the large Spanish trawler fleet to use the area, which has traditionally been the preserve of English fishing fleets.

Mr David Harris, a Conservative MP whose constituency includes the Newlyn fishing port, said yesterday that Spanish access to the Irish Box would inevitably lead to further cuts in quotas, hurting the UK fishing industry.

Mr Harris said he had written to Mr John Major, the prime minister, arguing that more control of fishing zones should be handed back to individual European Union member states, rather than regulated by the European Commission through quotas. "The end result is going to be massive overfishing of stocks already under pressure," he said.

However, Mr Tony Baldry, the fishing minister, said that Spanish boats would not be able to catch any additional fish by choosing to trawl in the Irish Box rather than in other areas.

"They will be policed equally fiercely on the catches that they take to make sure the fish are the proper size and are within quota, as much as ensuring that there are no more than 40 trawlers at any one time in the Irish Box," he said.

The two men also disagreed about whether Spanish boats would abide by the rules of the agreement to use the disputed waters. Mr Harris predicted that Spanish trawlers would use "every trick in the book" to skirt the rules, while Mr Baldry argued that the Spanish boats would comply.

"It will be a very stupid Spanish skipper who seeks to break the rules," said Mr Baldry. "If he does so he will be prosecuted and fined up to £50,000 ($76,500)."

# Single currency still contentious for ministers

By Robert Peston, Political Editor

A significant difference has emerged between two senior British ministers over European monetary union.

Mr Kenneth Clarke, the chancellor of the exchequer, believes that the decision to participate in a single currency is primarily an economic one.

But Mr William Waldegrave, chief secretary to the Treasury and a member of Mr Clarke's team, said in a New Year interview that the decision to join was primarily "an act of political will and choice".

Mr Waldegrave also hinted that prime minister John Major's successful campaign to persuade the EU to study the implications of two-tier monetary union – with only a small minority of countries joining the proposed single currency – is motivated by a desire to delay the project.

"I do think that it is possible to imagine technical questions which will be raised which will worry those who are going in very much," Mr Waldegrave said. "The damage from a badly established union will be quite considerable."

Mr Waldegrave promised remorseless pressure to bring down UK public spending, as a way of financing next year's widely-expected tax cuts.

The chief secretary said he had a long-term aim of seeing public spending fall to around 35 per cent of gross domestic product compared with about 42 per cent at present.

He said this should not be seen "against the background of a slavish target of numbers" but because of a "genuine belief that too much is done [by government] and a good deal of it is actually hindering the economy".

His views on the potential for shrinking the government's share of the economy are strikingly different from those of Mr Clarke who is not persuaded that there is scope to get the proportion much below 40 per cent of GDP without damaging public services.

In the interview, the chief secretary also made it clear that he will contest any criticism he may face in the Scott report on arms sales to Iraq, due to be published in the next few weeks. Early leaked drafts of the report criticised Mr Waldegrave for failing as a Foreign Office minister in the late 1980s to announce an apparent softening in the government's policy on the arms embargo with Iraq.

"My conscience is entirely clear," said Mr Waldegrave. He would consider resigning only if he could be persuaded that his "memory of the whole business is so wrong".

He added that it would not only be his memory that was at fault but that of "the whole Foreign Office".

**Fiat cars** Company aims to reverse long decline in market share

# Dealer network to be restructured

By John Griffiths in London

Fiat Auto UK is restructuring its 220-strong Fiat dealer network, and increasing its Alfa-Romeo dealerships by 25 per cent, as part of a drive to regain its status as one of the UK new-car market's biggest importers.

Under the dealer restructuring, Fiat is retaining the overall size of the network at about 220 dealers but replacing many of the smaller, less committed outlets with facilities owned by the bigger retailing groups.

The Fiat group, once the leading mainland European supplier to Britain, is now ranked well behind Peugeot/Citröen, Volkswagen group and Renault in the importers' league table.

The moves strengthening Fiat's dealer networks come as the Italian group's wholly-owned UK subsidiary prepares today to launch its Bravo and Brava models. They are intended to challenge Ford's Escort, Vauxhall's Astra and other similar-sized models.

The new models appear set to return the Fiat brand to the 4 per cent-plus market share levels not seen since the early 1980s.

Mr James Blades, Fiat Auto UK's managing director, now expects Fiat's market share this year to hit 3.6 per cent, with total sales approaching 75,000 when about 3,000 Alfa-Romeo sales are included. Fiat's UK market share peaked in 1979 at 4.9 per cent, with sales of Lancia models at the time lifting the group's share over 5 per cent.

For much of the 1980s, however, Fiat's share slid downwards, mainly as the result of the parent group's failure to invest in new models. By 1992 it had slumped to less than 2 per cent.

So poor were Lancia sales that Fiat has stopped importing them to the UK altogether, while sales of Alfa-Romeo – bought by Fiat in 1987 – currently represent less than 0.2 per cent of the UK market.

However, the launch of two small cars, the Punto and Cinquecento, has already brought about a strong revival and Mr Blades maintains: "We are now working hard to ensure that further growth is stable and sustainable. That means making further inroads to fleets so as not to be subject to the whims of private buyers."

Fiat's concern in this respect is illustrated by Society of Motor Manufacturers and Traders statistics showing that the total new car market in the UK grew by 2 per cent in the first 11 months of this year. Within this total, however, fleet demand grew by 7 per cent whereas sales to private buyers have stagnated.

The importance of the fleet sector to manufacturers and importers is underlined by the fact that around 47 per cent of new cars this year are expected to be bought by fleets.

Fiat's sales to fleets this year have played a big part in its outperformance of the new car market overall. At 67,400, Fiat's total sales in the first 11 months were 20 per cent higher than in the same period last year, compared with a rise of only 2 per cent in the UK new car market overall. Within the total, however, sales to fleets have jumped 43 per cent.

# Business confidence outlook gloomy

By Graham Bowley, Economics Staff

A gloomier outlook for the British economy emerges today with a leading forecaster predicting that growth will slow this year and a poll which shows that business confidence is at its lowest since 1992.

According to the latest report by Cambridge Econometrics, the economic consultancy, a slowdown in the rest of the world will depress Britain's exports this year.

It says companies will also cut back on output as they try to sell the stocks they built up last year.

As a result, UK gross domestic product will grow by less than 2.5 per cent this year compared with 2.75 per cent in 1995, it predicts. This clashes with the official Treasury forecast of 3 per cent growth this year.

But growth will rebound next year to 2.8 per cent, the forecasting groop predicts. It thinks spending by consumers will grow modestly this year and then expand strongly next year – due partly to tax cuts in the next Budget.

Meanwhile, a poll published today of 2,000 businesses by Lloyds Bank shows that confidence is at its lowest level since the survey began in 1992. For the first time the survey shows an increase in those businesses reporting cashflow problems and a slowdown in export orders.

Orders for goods and services cootinue to grow, but at the slowest rate since the second half of 1992. The poll shows that confidence hss dropped as economic growth has beeo disappointingly slow and as there has been an increase in cashflow difficulties.

Mr Michael Riding, the director of commercial banking st Lloyds Bank, said that although companies "are still experiencing growth, they are having difficulty in coming to terms with managing in a low-inflation economy. This, coupled with failed growth expectations, has made them somewhat pessimistic, possibly unnecessarily."

UK NEWS DIGEST

## Funds recover, survey indicates

UK pension funds recovered from their poor performance in 1994 with investment returns averaging 19 per cent last year, according to a survey by the WM Company. Pension funds benefited from a return of almost 24 per cent on UK equities, which make up more than half of their portfolios. But they missed out on the big gains in the US stock market, which returned 33.8 per cent last year. Only 4.3 per cent of the £380bn ($585.5bn) of funds measured by WM was invested in US equities. "Everybody thought the US was overpriced at the end of 1994 but it really took off," said Mr Peter Warrington, a WM director.

He added that the longer term performance of UK pensioo funds demonstrated consistently impressive results. Whether measured over five years or 20 years, they showed the same average annual return of 15.3 per cent, nearly twice the rate of inflation. WM's survey, which covers around 80 per cent of UK pension funds, reveals little change in the mix of assets held by managers, despite widespread discussion of a tendency to "rebalance" portfolios with more fixed income investments and less equity. *George Graham, Financial Services Staff*

## Sweet-toothed spending hits high

British consumers tried to cut down on their sugar in 1995, according to the annual survey for the chocolate and sweets markets carried ont by Cadbury-Schweppes, the confectionery company. While Nestlé's Kit Kat bar consolidated its lead over the Mars Bar – perceived as more fattening – in the chocolate market, the most popular sweet was Wrigley's Extra, a sugar-free chewing gum.

Total consumption of chocolate declined slightly compared with 1994, from 530,000 tonnes to 526,000 tonnes, a trend which manufacturers attributed to the hot weather during the summer. But total spending on chocolate reached a new high of £3.2bn ($4.89bn). Kit Kat's sales rose 4 per cent to £200m while those of Mars, fell 2 per cent to £150m. *John Authers, London*

## Scots attack holiday plan

Scottish nationalists yesterday attacked plans to bring Scottish banking industry holidays into line with England. The move could make this the last traditional new year holiday period north of the border and set a precedent for other employers, warned Scottish National party employment spokesperson Ms Anne McNair. Scotland has two new year bank holidays – January 1 and January 2 – whereas England and Wales have only January 1.

Announcing SNP backing for a campaign by the main banking union Bifu, she said: "Once again it seems that Scottish families and society are taking second place to English clearing banks and the London Stock Excbange. Making Easter Monday a bank boliday instead of January 2, as is proposed, would make oo sense since demand for banking services is far greater at Easter than at New Year." *PA News*

## Murder hunt continuing

English police have reported an encouraging response in their search for the murderer of Freocb teenager Celine Figard, whose body was ideotified at the weekend after being found by the roadside. She had been missing for almost two weeks. After an emotional appeal by Ms Figard's father, more than a thousand people called the police to offer information.

Interpol and police in southern England have been co-operating to find a truck driver who offered the 19-year-old girl a lift at a service statioo near Newbury in Berkshire, west of London.

FINANCIAL TIMES
# COMPANIES & MARKETS







## MARKETS THIS WEEK

**TONY JACKSON: GLOBAL INVESTOR**
A debate on the power of the multinationals has broken out in the book review section of the New York Times. The opening salvo came in a review of Charles Reich's *Opposing The System* which argues that the current social malaise has been engineered by large corporations for their own benefit. The reviewer, Francis Fukuyama, regarded this as 1960s claptrap. **Page 17**

**ROBERT CHOTE: ECONOMICS NOTEBOOK**
Many countries have adopted targets for inflation as the centrepiece of their economic policies, but turning an enthusiasm for low inflation into a precise objective is not straightforward. The target has to be demanding enough to persuade people that the authorities are serious about achieving low inflation; but it cannot be too demanding because credibility will be lost if the target proves impossible to hit. **Page 17**

**BONDS:**
European bonds provided investors with some of the best returns in 1995, but over the past few weeks there has been a wealth of evidence that the growth of core economies such as Germany and France is grinding to a halt. **Page 20**

**EQUITIES:**
With most observers of the London market expecting base rates to fall further in the early months of 1996, shares could set some more all-time highs. In New York, the market will begin to fix its attention on the corporate earnings season starting later this month. **Page 19**

**EMERGING MARKETS:**
A far sighted investor who took a position in Jordan's fledgling stock market at the start of 1995 would have seen dollar-denominated assets appreciate by 23 per cent. Compare this with a loss of 35 per cent in India or Hungary. **Page 18**

**CURRENCIES:**
Currency forecasters are fairly bullish about the outlook for the dollar, though in recent years it has managed to confound the best intended explanations of why it should rally. **Page 18**

**INTERNATIONAL COMPANIES:**
Crédit Foncier de France, the specialist French property bank, is considering obtaining a substantial short-term bridging loan while it undertakes a wide-ranging restructuring plan. **Page 16**

**UK COMPANIES:**
Nationwide, the UK's second largest building society, is looking to its new life assurance and unit trust subsidiaries to enable it to reduce its dependence on mortgage-related financial services. **Page 16**

**STATISTICS**



# Disney plans to turn up its music

By Alice Rawsthorn in London

Walt Disney, the US entertainment group which recently bid $19bn for the Capital Cities/ABC television company, plans to strengthen its presence in the music business.

Disney is believed to have joined forces in the autumn with PolyGram, the world's largest record company, in an attempt to sign Janet Jackson, the best-selling US singer. Mr Michael Eisner, group chairman, was anxious to sign Ms Jackson in the hope that a high profile star would raise Disney's stature in the music market and attract other acts.

*Under the terms of Disney's agreement* with the Dutch group, Ms Jackson would have split her recording contract between the two groups. *She would have signed to* Disney in North America and to A&M, the PolyGram subsidiary which was her original record label, for the rest of the world.

It now looks as though Janet Jackson will sign a new contract with Virgin Music, the record label to which she has been contracted since 1991, when her A&M deal ended. Virgin, which is owned by Thorn EMI, the UK leisure group, is thought to have out-bid Disney and PolyGram just before Christmas, although it has not yet signed a contract with Ms Jackson.

*Mr Eisner is still keen for Disney to* expand in the music market, which is one of the fastest growing and most profitable *areas of the entertainment industry.* Until now, the focus of the group's music interests has been its Hollywood Records subsidiary founded six years ago.

So far, Hollywood's performance has been erratic. It has released a number of highly successful soundtrack albums for Disney films under the Walt Disney record label. *The Lion King*, the soundtrack to Disney's 1994 animated hit, has sold more than 8m copies in the US and the *Pocahontas* album has mustered US sales of more than 3m.

One option for Disney would be to continue to try to attract high profile stars. However, this *could* be slow and expensive as there is currently fierce competition among rival labels for best-selling acts.

An alternative for the group would be to bid for EMI Music, the Thorn EMI division that owns Virgin, which is expected to be demerged from the rest of the Thorn EMI group next autumn. EMI *is* the world's third largest record company, with star acts including the Beatles, Blur and Pink Floyd.

EMI is likely to be the last of the leading music groups to be sold, as the others are already owned by large entertainment groups. However, Disney could face fierce competition for EMI from other North American companies anxious to establish or expand their music businesses, including Viacom, News Corporation and Seagram.

# Forte seeks global hotel growth through Meridien

By David Blackwell in London

Forte, the UK's biggest hotels group, is planning a further 26 Meridien Hotels in a push to expand internationally.

The move is expected to be announced in today's final defence document against the £3.3bn ($5bn) hostile bid from Granada Group, the UK television, catering and leisure company.

Forte is also likely to promise a special dividend or share buy-back if the £1.05bn sale of its roadside businesses to Whitbread goes through. Last week, the group agreed to sell its Little Chef and Happy Eater roadside restaurants, Welcome Break motorway service areas and Travelodge budget hotels to the UK brewing and leisure group. The deal is conditional on the *failure of Granada's bid.*

Forte is also expected to raise its dividend, which was cut from 9.91p to 7.5p for the year to January 31 1993 and was last raised five years ago.

The document will also show that Christie & Co, the property surveyor, has revalued the hotels upwards by £355m to £2.35bn, just over 10 per cent above the last estimate in January 1994 and representing net asset value per share of 325p. This excludes the stake in the Savoy Group, which Forte plans to sell.

The revaluation, released over the weekend, was dismissed by Granada, which said that if the increase had been added to assets on July 31 last year, the return on assets would have *fallen from 7.4 to 6.5 per cent.* "Frankly, this looks like a bit of an own goal by Forte," said Mr Gerry Robinson, Granada chief executive. Forte paid £280m to acquire the Meridien chain of 58 hotels from Air France just over a year ago in order to give it a bigger international presence. Of the 26 projects under consideration, one is in the UK and all the others abroad, including Beirut and Bangkok.

Most will be management contracts, although equity stakes have not been ruled out. Expansion in the US remains a priority.

Sir Rocco Forte, chairman, said the main thrust for Meridien would be overseas. "We have only just started," he said. "Now we will be much more proactive."

An open market in sale and repurchase agreements for UK government bonds starts today

# London braces itself for a repo revolution

*Dealers in UK government* bonds are today braced for one of the biggest changes in the City of London since *Big Bang* 10 years ago.

The introduction of an open market in gilt repos, agreements to sell and then repurchase government bonds, will allow all participants in the market to borrow and lend stock, removing the monopoly over such activity that a select number of firms have long enjoyed and bringing the UK market into line with practices in the *US and France*.

The Treasury and Bank of England hope the changes will make it easier for investors to trade gilts, increasing their attractions to overseas investors and ultimately reducing the cost of funding government debt. But the development of repos could also lead to broader changes in the structure of the UK's short-term money markets and in the way the Bank of England manages liquidity.

"I'm not saying that repo is going to take off overnight but it is the brave new world," says Ms Una van Dorssen, director of repo marketing at NatWest Markets.

In simple terms, a repo is an agreement to sell a security and then repurchase it at an agreed future price and date.

One party to the deal "borrows" money, using the security as a collateral. The other party "lends" the money and "borrows" the bond, in much the same way as a pawnbroker would take temporary possession of valuables in return for a personal loan. But although the repo looks like a loan, in reality it encompasses a disposal and a subsequent acquisition, reducing credit risk in the *event of default by either party.*

And in the international bond markets, repos play a more complex economic function. Dealers frequently borrow money through repos to fund the purchases of the same bonds, which are then committed as collateral. Securities firms usually rely on this means to finance their operations as they do not have access to the interbank markets where banks lend to each other.

At the same time, dealers "lend" money through repo agreements, in a *similar* way to how they might place money on deposit with a bank, although in this case they have the additional security of holding a bond as collateral.

At the same time, the "borrowed" bonds can be used to meet short-term trading needs. In the bond markets, dealers frequently take short positions (sell bonds they do not own), when they feel prices are likely to fall.

In the UK, the ability to carry out repos or to borrow or lend government stock through stock lending agreements has been restricted by law to stock exchange money brokers – effectively middlemen. In addition, only gilt-edged market-makers, a group of more than 20 securities *firms* licensed by the Bank of England, have been allowed to "short" the market.

The new, more liberal rules will make it possible for a much wider range of traders and investors to operate in the UK gilts market. "The *fact* that it is now seen as a clear and open market will make it attractive. It will encourage people into the marketplace. They no longer see it as an esoteric market with *rules of its own*," says Mr David Brayshaw, managing director LM Money Brokers.

Ms van Dorssen at NatWest Markets says that with a deep and liquid underlying market and a robust futures market in place, repo's development will increase the range of strategies open to traders.

The impact of repo on the UK's money markets should also be significant. "It will be beneficial for the money market and should help to restore liquidity," says Mr Brayshaw. "There has been a lack of short-dated government paper that can be traded. Also, the overnight market, which determines funding costs, has come to be dominated by a small group of players."

Ms Van Dorssen says cash managers will be able to place larger amounts of money on "a repo line" than on an "unsecured deposit line".

And in the short-term, at least until liquidity in the market picks up, dealers expect repo rates to be close to the London interbank rates, offering investors the double advantage of security and extra yield.

Nevertheless, traditional market participants may take time to adapt to the new environment.

Some UK institutions, which currently earn a fee by lending stock on their books to money brokers, may have to modify their systems and learn new skills. Specialists in managing medium and long-term investments, they may be less prepared for the demands of short-term money market management necessary in the repo market. And dealers may prefer to obtain finance through existing relationships with money brokers.

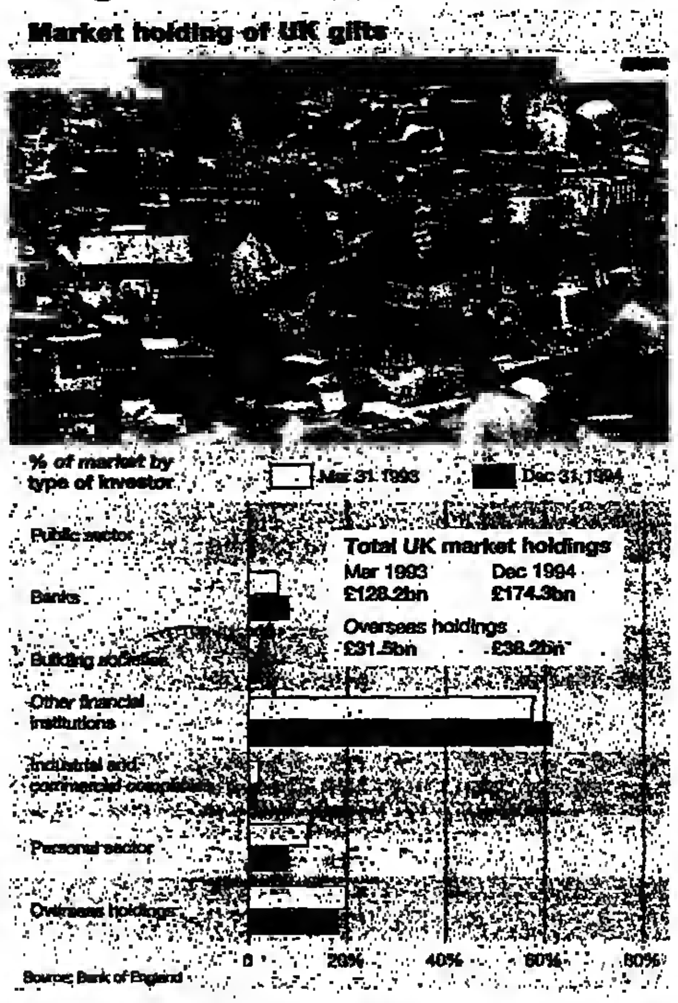
In the long-term, however, dealing directly with other dealers and investors through repos should become cheaper and more attractive. Mr Simon Briscoe, chief UK economist at Nikko Europe, says money market operators will respond to repo similarly to way in which British motorists responded to the opening of the motorways in the early 1960s.

"It wasn't an immediate transition. Even though motorways allowed for more traffic and bigger lorries people still use the A roads."

Step away from tradition, Page 20

**Richard Lapper and Philip Gawith**

**Market holding of UK gilts**




Source: Bank of England

## This month: Company news

US RESULTS

### Productivity growth to lead to strong earnings

US investors are looking forward to some good news this month as most companies start reporting their 1995 earnings figures. Throughout the year, the quarterly numbers have produced pleasant surprises, with results often beating analysts' estimates, writes Maggie Urry.

Corporate America has gone through rapid productivity growth in recent years, which has meant that even in 1995, with profits rising sharply, companies were still laying off workers and taking large restructuring charges.

Analysts prefer to look at the "operating earnings", excluding one-off charges. Forecasters expect the S&P 500 companies to announce earnings per share totalling about $38 per share compared with $32 in 1994, a rise of nearly 20 per cent.

Particularly strong earnings gains are expected from cyclical sectors such as aluminium, paper and pulp, and chemicals. Also well ahead will be technology groups. However, some of these, such as semiconductor makers, issued warnings on profits for the final quarter as sales growth weakened and prices came under pressure.

Weaker figures are expected from some of the consumer non-durables groups, such as the tobacco and restaurants sectors. In February, poor results are due from retailers.

OTHER COMPANIES

### Santander gains from Banesto's recovery

Mr Emilio Botín, chairman of Banco Santander, Spain's largest banking institution, announces the group's 1995 consolidated results later this month, writes Tom Burns in Madrid.

Santander raised its attributable profits after minorities by 5.9 per cent to Pta63.3bn ($519m) in the first nine months of 1995, ahead of market expectations, and said it had absorbed the impact of the troubled Banco Español de Crédito (Banesto), which it acquired in 1994. Mr Botín is likely to stress that Santander stands to make impressive gains from Banesto's recovery. Banesto is expected to post attributable 1995 profits of Pta21bn and to raise them to around Pta50bn in 1996. *The earnings potential of Santander*, the parent bank, was underlined by a 17 per cent growth in customer deposits between January-September 1995 that offset narrowed margins.

■ **Fokker:** Negotiations on a capital injection for the loss-making Dutch aircraft maker are due to resume early in the new year, but there is no indication when the rescue plan may be agreed.

Daimler-Benz Aerospace (Dasa) of Germany, the controlling shareholder, and the Dutch government, a big minority shareholder, failed to agree the package, believed to be worth more than Fl2bn ($1.25bn), before the end of 1995.

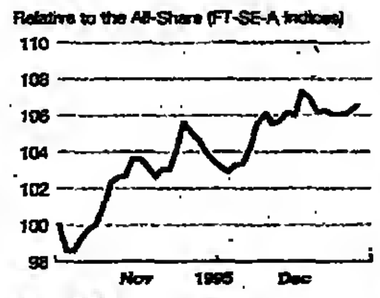
Dasa had originally promised to keep Fokker afloat until the end of 1995 by providing financial guarantees. However, in December Dasa extended its commitment, saying its guarantees would remain in place as long as the talks continued.

■ **Oce-Van Der Grinten:** Mr Harry Pennings, executive chairman of the Dutch photocopier manufacturer, is scheduled on Friday to give provisional figures for the year ended November 30. Growth in net profits is expected to be in line with the 16 per cent increase posted in the first nine months. The company, the first in the Netherlands to report results, will publish definitive figures on February 27.

■ **UK retailers:** Expect to hear news of another strong Christmas as large UK retailers make their January trading statements. Christmas accounts for a large part of many retailers' annual profits.

Reports of a buoyant December and good start to the post-Christmas sales have breathed life back into a sector depressed by gloomy results in the autumn. But analysts forecast wide variations in retailers' performances.

**Retailers General**




Source: FT Extel

■ **Executive pay:** The Greenbury *committee's report on executive pay in* the UK will move into the spotlight in January and February with the publication of a consultation document and several companies' annual meetings held under Greenbury rules for the first time.

Next Monday, a consultation document on possible methods for disclosing the true value of directors' pensions will be launched. The Faculty of Actuaries and the Institute of Actuaries, together with the Stock Exchange and the Department of Trade and Industry, are to send the paper to *public companies and are seeking* their views by February 9.

The Greenbury committee's report, published in July, recommended that pension costs be disclosed to shareholders to reflect the value to the individual as well as the true cost to the company.

The Institute of Actuaries and the Faculty of Actuaries put forward a preferred method but there were calls for wider consultation.

Many companies feared that directors' remuneration could appear to increase by startling amounts under the new code. The consultation document will include a number of options – including allowing for the "smoothing" out of the effects of Greenbury.

Other Greenbury recommendations have already been put in place by some *companies* and are due *to be tested* at annual meetings in the next few weeks.

Bass and Burton, in their annual reports sent to shareholders last month, were the first companies to give a separate remuneration committee report on executive pay. Both companies' remuneration committee chairmen will be answering shareholder questions on pay at the meetings on February 8 and January 25 *respectively*.

Greenbury also recommended that companies seek shareholder approval for new long-term incentive schemes. Burton and Capital *Radio* on January 17 will ask shareholders to vote through new schemes for executives at their annual meetings.

■ **Cable and Wireless:** At an extraordinary general meeting on January 15, shareholders in the UK-based telecommunications group will have the opportunity to question the board on the abrupt departures of the *chairman, Lord Young of Graffham*, and Mr James Ross, chief executive.

The purpose of the EGM, however, will be to change the company's articles to allow a non-British citizen to hold one of these top jobs. This would allow the New Zealand-born finance director, Mr Rod Olsen, to act as chief executive until a replacement is found. C&W is believed to be looking abroad for its ultimate appointee.

**Companies in this issue**

## NEWS DIGEST

# Mediobanca to give Ferfin offer terms

Mediobanca, the powerful Milan merchant bank, is expected to reveal shortly the terms of its public offer to buy 158m shares of Ferruzzi Finanziaria (Ferfin), the holding company that controls the Montedison industrial group.

The move has been forced upon Mediobanca after it lost two judicial appeals against a public offer for an amount of shares equal to those acquired in an October raid to gain control of Ferfin. The completion of the offer will mean Mediobanca will hold 15.26 per cent of Ferfin, with an estimated disbursement of L582bn ($367m).

Mediobanca finally accepted the ruling of Consob, the stock exchange watch dog, late last Friday. It had initially lodged an appeal with the regional administrative court of Lazio, and when that failed with the higher court of the state council.

Pricing of the offer presents several problems. Principal among these has been the L953bn Ferfin rights issue in mid-December. This came well after Consob's first ruling that Mediobanca must make a public offer. Before the rights issue, analysts suggested L1,580 per share represented the average price paid by Mediobanca in its October raid on Ferfin.

But just before the rights issue they were suspended at L1,056; and Consob announced only shareholders on the register before the issue could be the subject of Mediobanca's public buy offer. This point is apparently being questioned by Mediobanca's lawyers.

Analysts also pointed out that by being obliged to acquire 15 per cent of Ferfin, the outlay represented over 10 per cent of Mediobanca's assets, a large exposure.

*Robert Graham in Rome*

## Health groups abandon merger

After a busy year of consolidation, the US healthcare industry ended 1995 on a sour note with the formal dissolution of a $1.6bn merger that would have created the country's largest managed care organisation.

WellPoint and Health Systems International, two Californian healthcare groups, abandoned a merger agreement reached last April. Friday's development came two weeks after the two organisations announced they were in discussions to break off merger talks, and follows indications that executives from each side were unable to reach agreement on how to share power in the new company.

The merger would have created a West Coast giant with the financial muscle to acquire other managed care groups around the country. The two had listed the ability to grow beyond their Californian base as a key reason for the combination.

Under the terms of the all-stock deal, shareholders in Health Systems would have received 45 per cent of the shares in the combined group. However, the two sides are believed to have been unable to agree on what role the smaller company's managers should play after a merger. The deal would have provided the springboard for a far more widely-held public company than either is at present.

*Richard Waters in New York*

■ Maculan, the troubled Austrian construction group, said creditor banks had agreed an extensive financing package to salvage the company in its entirety.

The financing measures include cash-credit lines worth Sch910m ($90m) which will be divided between the group's Austrian and German creditor banks according to the previous volume of credit granted. In addition, the creditor banks and credit insurers will make guarantee lines available, totalling Sch770m, Maculan said.

Maculan Holding in turn has undertaken to forgo the repayment of shareholder loans made to its operating subsidiaries with a total volume of some Sch933m.

*Reuter, Vienna*

■ Tabacalera, the partly-privatised Spanish tobacco company, has sold its lossmaking dairy subsidiary La Lactaria Española SA (Lesa) for Pta4bn ($33m).

Tabacalera acquired Lesa, Spain's biggest milk company with 10 per cent of the market, in 1988. The buyers, the milk companies Leyma and Iparlat, will also assume Pta8bn of Lesa bank debt, guaranteed by Tabacalera. The state's Official Credit Institute is providing the buyers with an Pta8bn loan to pay Lesa's debts and restructure the company.

*Reuter, Madrid*

# French bank seeks short-term finance

By Andrew Jack in Paris

**Crédit Foncier de France, the specialist French property bank, is considering obtaining a substantial short-term bridging loan while it undertakes a wide-ranging restructuring plan.**

Bank executives are believed to be discussing the idea of seeking a loan from a commercial bank, secured on its assets, which would last about three years.

Separately, they are holding talks with the government about short-term ways to stave off the growing financial crisis triggered by the withdrawal of its monopoly rights over certain state-backed housing loan schemes.

The idea is to provide the bank with time to introduce a restructuring programme which could reduce costs by 30 to 40 per cent in as little as the next two years, including job cuts and the possible sale of some of its central Paris offices.

However, executives want to reduce staffing without any redundancies so they are likely to extend the length of their programme to at least three years.

They are also discussing refocusing the bank, possibly by withdrawing from activities such as loans to property developers and local authorities, and concentrating on core activities of loans to low and middle-income housing projects.

Crédit Foncier's ability to raise funds on the capital markets has been tightly restricted recently because its share price has dropped sharply and its credit rating has fallen.

It was dealt a severe blow during December when the French stock market regulators recommended against it proceeding with a proposed merger with its 55 per cent-owned subsidiary, Société des Immeubles de France.

The deal would have provided a much-needed FFr1bn ($204m) boost to its balance sheet. It is now looking at other ways of achieving a recapitalisation.

The bank is also likely to discuss with the French government, in the medium-term, a change to its legal statutes to make it more like its private sector competitors.

Although it is a quoted company without any state shareholding, the government appoints its chairman or "governor".

# Hyundai to accelerate decentralisation

### South Korea's biggest family-run 'chaebol' is moving with the times, says John Burton

Mr Chung Mong-koo, Hyundai's new chairman, is likely to preside over the gradual break-up of the giant family-owned South Korean industrial group his father established in 1947.

That, however, is the way Mr Chung Ju-yung, the Hyundai founder, wants it. In an attempt to avoid a family fight over the Hyundai empire after his death, Mr Chung decided several years ago to divide it among several of his sons and nephews by transferring his stock in most of Hyundai's 45 companies to them.

The result has been the creation of smaller and decentralised groups within Hyundai that amount to a confederation of allied companies.

The process is expected to accelerate with the recent formal transfer of management control from the elder Mr Chung and his brother Chung Se-yung, who succeeded him as chairman in 1987, to their sons.

Hyundai's restructuring, which is expected to benefit the group, could serve as an example to Korea's other conglomerates, or chaebol. The chaebol have been widely criticised for being too big and inefficient while fierce competition, for example, has led to duplication of activity.

Government officials have long urged them to abandon many of their marginal businesses and concentrate on a few specialised industrial sectors to improve their global competitiveness.

Splitting Hyundai into smaller groups is expected to help achieve these goals. Each mini-Hyundai group focuses on only a few industries, and these units are less able to support unprofitable activities than they were within the old monolithic structure.

**Companies affiliated with relatives of Chung Ju-yung.**

**Chung Mong-koo, eldest son, chairman of Hyundai group.** Hyundai Precision & Industry, Inchon Iron & Steel, Hyundai Pipe, Hyundai Housing & Industrial Development, Hyundai Motor Service and Hyundai Construction Equipment.

**Chung Moog-kun, son,** Keumkang Development.

**Chung Moog-hun, son and Hyundai vice-chairman.** Hyundai Electronics, Hyundai Merchant Marine and Hyundai Elevator.

**Chung Mong-jun, son,** Hyundai Heavy Industries.

**Chung Mong-yun, son,** Hyundai Marine and Fire Insurance.

**Chung Mong-il, son,** Hyundai International Merchant Bank.

**Chung Mong-hyuck, nephew,** Hyundai Petrochemical and Hyundai Oil Refining.

**Chong Mong-kyu, nephew,** Hyundai Motor.

Under a reorganisation plan announced a year ago, Hyundai was divided into six main groups, with almost all now controlled by one of Mr Chung's sons and nephews.

The most ambitious of the new sub-groups is the one controlled by Mr Chung Mong-koo, the new Hyundai chairman and eldest surviving son of the Hyundai founder.

In 1977, he established Hyundai Precision & Industry as a cargo container company, which became the world's largest. Hyundai Precision now produces railway engines and carriages, sports and utility vehicles, and military equipment. It also plans to enter the aerospace sector, assembling aircraft and satellites.

Mong-koo also controls Hyundai's small steel operations, which he wants to expand by building a large mill that would supply steel to Hyundai's car and shipbuilding operations.

Mr Chung Mong-hun, his brother and the new Hyundai vice-chairman, has developed Hyundai Electronics into one of the world's biggest producers of computer memory chips in less than a decade. Another brother, Mr Chung Mong-jun, controls Hyundai's shipbuilding operations, the biggest in Korea.

Hyundai Motors, Korea's largest car company and considered the group's crown jewel, is being taken over by the family of Mr Chung Se-yung, the brother of the Hyundai founder. His only son, Mong-kyu, has been appointed as the car company's new chairman at the age of 33.

Mr Chung Mong-hyuk, another nephew of the Hyundai founder, has been named new president of Hyundai's petrochemical and oil refining companies, another growth area.

Other main Hyundai companies, including its trading house and construction com-

Chung Mong-koo: setting an example to other conglomerates

pany, remain under the control of the group founder.

A formal break-up of Hyundai is likely to take some time since the group is held together by a complex web of cross-holdings. These ties, however, should weaken as the government imposes limits on cross-holding arrangements in attempt to reduce the economic dominance of the chaebol.

Family solidarity is also expected to prevent an early break-up of Hyundai. The Hyundai companies are likely to operate on the same basis that Mr Chung Ju-yung has established with several of his brothers, who have created their own small industrial groups that partly depend on Hyundai for business.

Hyundai Motors, for example, is the biggest customer for the motor vehicle parts company of the Halla group, founded by Mr Chung In-yung.

Nonetheless, internal conflict may also increase as rivalry grows between the Hyundai companies. Hyundai Precision, for example, is challenging Hyundai Motors by producing four-wheel drive vehicles and mini-vans.

A looser organisational structure may also make it more difficult to push through large projects that were once easily tackled under the autocratic management style of the Hyundai founder.

Analysts will also be watching closely to see whether the new Hyundai chairman can gain group support for his projected $10bn steel mill, which has been criticised by some Hyundai subsidiaries as unnecessary.

### FT writers look at the best performing shares around the world in 1995

# Netscape leads the fashion for US new issues

Best & worst sectors

New issues – if you could lay your hands on them – were the hottest performing stocks in the US last year, with Netscape Communications, the Internet company, racing to the fore, writes our New York staff.

The market for initial public offerings was more active than it had ever been, but the few sceptics that remained claimed this was a sure indication the US market was way out in front of most traditional valuations measures.

Netscape, which produces a browser for the Internet, was floated in August at $28 a share, and by year-end it was trading at $139, having reached a peak in early December of $174.

Other strongly performing new issues included Pixar, which handled the animation for Disney's latest hit film *Toy Story*. It floated at $22 just after the film's opening at Thanksgiving, and quickly reached a high of $49¼, although by year-end it had fallen back to around $26¾.

Many of the new issues were in the technology sector, which had led the market higher for much of the year, although towards the end of the year many of these stocks faltered as growth in semiconductor sales slowed.

The technology sector's performance should not obscure notable gains in other sectors. Lower interest rates and hopes for productivity gains made bank and insurance company shares among the best performers. Banks, deep into a round of mergers, recorded gains of more than 50 per cent.

Steel companies, most of which crawled back into profit only in 1994, managed the dubious distinction of forming the worst-performing stock market sector.

Another poor performer was the retail sector, which ended another difficult year with a disappointing Christmas.

## Construction falls

Building sites abound in German cities and cranes cover the Frankfurt skyline, but construction shares headed remorselessly downwards in 1995, writes Andrew Fisher in Frankfurt. The sector's share performance slumped by 33 per cent and 1996 is not expected to show much, if any, improvement.

By contrast, the electrical and electronics sector had a strong year, adding 34 per cent. Apart from Siemens, reaping the benefits of its aggressively profit-oriented restructuring, the sector contains SAP, the fast-growing producer of business software. SAP's share performance has been meteoric in the past two years, though it has slowed recently.

Commerzbank, whose own new headquarters is taking shape in Frankfurt, estimates that profits of quoted construction companies will rise a mere 2 per cent in 1996 after 6 per cent in 1995. The German commercial and homes building boom is now over, with public sector construction also held back by budget constraints.

Mr Ingo Mainert, a Commerzbank analyst, says stocks likely to perform in line with or better than the overall market this year include motors, steel, electricals and electronics, and insurance.

The bank foresees the DAX index rising to 2,500 or even 2,600 points after it closed on Friday at 2,254, a rise of 7 per cent on the year. A year ago, the bank had hoped for 2,400 but the weak dollar and higher than expected pay rises threw out its calculations.

For electrical and electronics companies, Commerzbank expects an overall profits rise of 21 per cent this year after 22 per cent in 1995. Earnings in the steel, engineering, motor and metal industries should show steeper rises, it says.

*Further markets will be covered over the following days.*

# £170m buy-out at New Look fashion group

By Tim Burt

New Look, the privately-owned fashion retailer founded by entrepreneur Mr Tom Singh, was yesterday sold to a venture capital buy-out group for up to £170m.

Mr Singh, who started the company in 1969 with a £5,000 loan, has agreed to sell the 323-store chain to institutional purchasers led by BZW Private Equity and jointly underwritten by Prudential Venture Managers.

The sale follows New Look's abortive attempt to come to the market in October 1994, which it abandoned the day before its scheduled flotation amid fears it would not raise the estimated £150m it was seeking.

Under the terms of yesterday's deal, New Look's shareholders – dominated by Mr Singh and his family trusts – will initially receive about £105m in cash and shares worth some £50m in Vallsar, an investment vehicle set up for the transaction.

That will leave the Singhs with 25 per cent of Vallsar, which is to be renamed New Look. BZW Private Equity has also offered a further £15m payment contingent on New Look's performance in the three years to March 1998.

Mr Gavin Aldred, New Look's director in charge of corporate strategy, said proceeds from the disposal would fund further expansion: "In the 12 months to March this year, we will have opened 76 stores in the UK and 10 in France, and we aim to continue growing at about 50 outlets a year."

He claimed New Look – advised by J. Henry Schroder – was Britain's most profitable specialist women's wear retailer. In the year to March last year, pre-tax profits more than doubled from £8.01m to £15m on increased sales of £141m (£83.4m).

Its rival Etam, by comparison, reported first-half losses of £3.85m in the autumn, against pre-tax profits of £4.74m.

Mr Graeme White, a director of BZW Private Equity, praised New Look's operating performance and said the existing management would remain in place.

Mr White has joined an enlarged board of New Look as a non-executive director, as has Mr Martin Clarke of Prudential Venture Managers. He said the two venture capital backers had no timetable for an exit, but did not rule out a fresh attempt at flotation in the future.

# Dana Petroleum plans listing and seeks £16m

Dana Petroleum, the independent oil production company, plans to seek a London listing and raise approximately £16m from a placing, open offer and intermediaries offer. The company, which produces oil in western Siberia in partnership with some of Russia's largest energy companies, plans to use the proceeds to develop production at the South Vat-Yoganskoye field.

Under the placing and open offer, Guinness Mahon has placed 145m new ordinary shares at 7p, while 57.5m new shares are being offered to shareholders on a 3-for-10 basis. A further 28.6m are being offered to intermediaries, also at 7p.

# Victors and victims of boardroom upheaval

### Tim Burt looks at the high number of companies starting the year with a change of leadership

An unprecedented number of Britain's leading companies are beginning 1996 with newly-installed chairmen and chief executives following a year of boardroom upheaval.

Groups such as BAT Industries and Inchcape have new chairmen, while British Telecommunications, BTR, BOC, W.H. Smith, and electronic components manufacturer Bowthorpe are among those to bring in new chief executives.

Their arrival – mostly part of a smooth succession – comes after a year in which other high-profile directors became boardroom casualties, including Lord Young and Mr James Ross, chairman and chief executive respectively of Cable & Wireless.

Mr Tiny Rowland left Lonrho after losing his long-running battle with Mr Dieter Bock, the trading group's chief executive. Other departures included Mr Mick Newmarch, chief executive of Prudential; Mr Richard Reynolds, a director of GEC; Mr Howard Robinson, chief executive at Calor Group; and Sir Brian Wolfson, chairman of Wembley.

Russell Reynolds, the UK's largest headhunter in revenue terms, said the number of arrivals and departures reflected the growing influence of institutional shareholders and non-executive directors in bringing in new management.

"We're seeing a trend that when companies are having a very difficult time the executives are being brought to account," said Mr David Shellard, managing director.

He cited the Cadbury committee on corporate governance as one factor behind the increased turnover among company directors, while adding that the Greenbury committee on executive remuneration had focused shareholder attention on performance-related pay.

Heidrick & Struggles International, the London-based executive recruitment agency, said the rash of outside appointments also signalled a growing skills shortage at board level. Mr John Viney, chairman, said: "There are simply too few people to go round. So we're seeing the best, such as Sir Colin Marshall, taking on two or three roles."

Sir Colin, chairman of British Airways, yesterday became non-executive chairman of Inchcape, the international marketing and services group.

"Inchcape has not been in the best of health," Mr Viney added. "They know it's much better to have a top-class person – even if only for one day a week – than someone less effective."

Among the other new arrivals this month, Lord Cairns, who last year resigned as chief executive of S.G. Warburg, the investment bank, becomes chairman of BAT Industries.

Mr Ian Strachan succeeds Mr Alan Jackson as chief executive of BTR. Sir Peter Bonfield, knighted in the New Year honours, moves from computer group ICL to be chief executive of BT. Mr Bill Cockburn has become chief executive at W.H. Smith.

Mr Tim Parker is taking over as chief executive at C.J. Clark, the shoemakers. Mr Nicholas Brookes is the new chief executive at Bowthorpe. And BOC, the industrial gases group, will mark its annual meeting later this month with the appointment of Mr David John and Mr Danny Rosenkranz as new chairman and chief executive respectively.

Ringing in the new year: those taking the helm include (from left) Sir Colin Marshall (Inchcape), Tim Parker (C.J. Clark) Ian Strachan (BTR), Sir Peter Bonfield (BT), Bill Cockburn (W.H. Smith) and Lord Cairns (BAT Industries)

# Nationwide looks to life operation

By Alison Smith, Investment Correspondent

Nationwide, the UK's second largest building society, is looking to its new life assurance and unit trust subsidiaries, which open today, to enable it to reduce its dependence on mortgage-related financial services.

The new operations replace the relationship in life assurance that Nationwide has had with Guardian since the beginning of 1990s.

Mr Tom Boardman, managing director of the two new subsidiaries, said that whereas in selling Guardian's financial services about four-fifths of Nationwide's business was mortgage-related, he hoped that within a couple of years this could be reduced to about half.

This strategy seems to acknowledge that endowment mortgages are becoming less popular and that any recovery in the housing market over the next couple of years is unlikely to match the pace of the 1980s.

Nationwide has also set itself the target of winning 70,000 financial services customers in the first year – about 1 per cent of its total 7m customer base.

This is more ambitious than the 40,000-plus financial services customers it is thought to have gained each year during the six-year tie with Guardian.

The new life company will sell term assurance, a mortgage endowment policy, a guaranteed equity bond and a personal pension plan. The unit trust operation will sell two unit trusts – a UK growth fund and a balanced fund which includes an element of overseas exposure.

Apart from the policies it designs itself, Nationwide Life will also sell a permanent health insurance policy bought in from PPP, the healthcare company.

This is a smaller and simpler range than the Guardian policies which Nationwide has been offering, but Mr Boardman said the straightforward nature of the products should help to keep costs down. He believed the range was still broad enough to meet most customers' needs.

For Nationwide, as for other mortgage lenders which have set up their own financial services businesses, a key element will be to market these products to the entire customer base – savers as well as borrowers.

Initially, Nationwide's salaried financial services sales force will be made up of about 340 agents and will grow to 380 by the end of February. Just over half of these will be branch-based, with the remainder available to visit customers.

# Thomas Locker's bid for Pentre attacked

By Tim Burt

The largest shareholder in Thomas Locker yesterday claimed the engineering group was seeking a reverse takeover with its proposed £7.5m bid for Pentre, the industrial drums manufacturer.

Mr John Carr, who holds 22.6 per cent of Thomas Locker's ordinary shares, said the purchase price overvalued Pentre: "The shareholders of Thomas Locker not only get no premium for the very significant value inherent in the company they own, they are being asked to approve a scheme that will lose them control."

Mr Carr, who acquired his stake in the company last May, urged shareholders to reject the acquisition, which is being funded by the issue of 8.62m new and 25.9m A ordinary shares. He also condemned as inadequate a proposed 3-for-10 scrip issue of additional ordinary shares, designed to compensate ordinary shareholders for the loss of voting rights.

The dissident shareholder, advised by KPMG, said there was no logic for Thomas Locker in acquiring Pentre, which he claimed was burdened with £6.9m borrowings.

Neither company was available for comment.

# FINANCIAL TIMES MARKETS THIS WEEK



## Global Investor / Tony Jackson in New York

# Assessing the power of multinationals

A noisy debate has broken out in that quiet retreat for the weekend reader, the book review section of the New York Times. It revives an issue which some might have thought buried: the power of the multinationals. It is also a useful reminder that the triumph of free trade – an idea implicit in most investment strategies today – cannot be taken for granted.

The opening salvo came in a review by the political theorist Mr Francis Fukuyama of a book called Opposing The System. The book, by a veteran leftist Mr Charles Reich, reportedly argues that the current social malaise – poverty, unemployment and so forth – has been engineered by large corporations for their own benefit. Therefore, it says, the powers of governmeot should be increased to control them.

Mr Fukuyama regarded this as 1960s claptrap. The remedies proposed by Mr Reich, he argued, had got us into this mess in the first place. Poverty and crime were caused not by big companies, hut by big government.

Enter stage left another 1960s veteran, the consumers' champion Mr Ralph Nader. Big corporations, he wrote in reply, erode democracy, export jobs, and weaken the legal safeguards for workers, consumers and the environment. "Until Mr Fukuyama understands that a society rots from the head down and that corporate power needs analysis, he will never understand Mr Reich's thesis," he concluded.

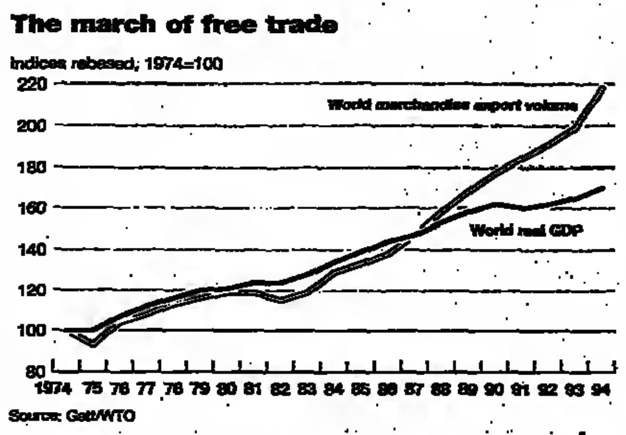
*So far, so familiar.* But the role of the multinationals is becoming part of a wider issue: that of free trade. If yon helieve thet free trade is destroying jobs and damaging society, you are bound to blame the multinationals as its agents.

As another book recently put it, global free trade "will impoverish and destabilise the industrialised world, while at the same time cruelly ravaging the third world." The author is no 1960s leftist, but the erstwhile corporate raider Sir James Goldsmith.

As a blend of right-wing populist and born-again environmentalist, Sir James forms an unlikely hridge between the two wings of protectionism. On the right, he is joined by the US presidential candidate Mr Pat Buchanan and by the fellow-hillionaire Mr Ross Perot.

On the left, he links with those who argue that free trade enebles had environmental practice to drive out good: that through the agency – again – *of the multinationals, production* will gravitate to countries free from costly environmental controls.

**The march of free trade**




Source: Gatt/WTO

Those who feel paranoid about the unholy alliance of free-trade governments and hig business can point to one central fact. As the chart reminds us, world trade has indeed been growing rapidly in relation to the world economy since the late 1980s, having *previously grown in line.*

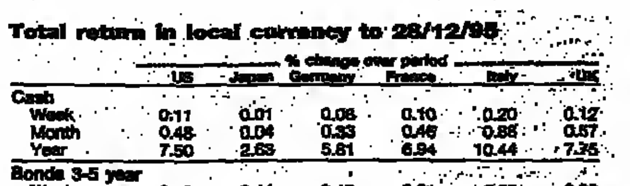
But are corporations growing in proportion? The evidence is mixed. Last year, the three biggest US companies by revenues, as listed by Fortune magazine, were General Motors, Ford and Exxon. Their combined sales of $384bn (£249.3bn) were equal to 5.7 per cent of US GDP. The figure for the same trio 20 years before was 6.7 per cent.

*But if US multinationals* are not higger, they may still be more powerful. Arguably, modern communications and the lowering of trade barriers give them much more opportunity to arbitrage labour and capital around the world. Hence the solution of such as Mr Buchanan: put the harriers up again.

It might be thought that the impulse to free trade is politically unstoppable: and indeed, that in the coming world of the Internet the genie cannot be put back in the bottle anyway.

**Total return in local currency to 28/12/95**

| | US | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| | % change over period | | | | | |
| **Cash** | | | | | | |
| Week | 0.11 | 0.01 | 0.08 | 0.10 | 0.20 | 0.12 |
| Month | 0.48 | 0.04 | 0.33 | 0.46 | 0.88 | 0.57 |
| Year | 7.50 | 2.63 | 5.81 | 6.94 | 10.44 | 7.35 |
| **Bonds 3-5 year** | | | | | | |
| Week | 0.12 | –0.44 | -0.12 | 0.01 | 0.58 | –0.26 |
| Month | 0.97 | –0.28 | 1.31 | 1.15 | 2.28 | 1.49 |
| Year | 15.02 | 12.87 | 15.28 | 14.48 | 16.80 | 14.31 |
| **Bonds 7-10 year** | | | | | | |
| Week | 0.05 | –0.47 | -0.26 | –0.04 | 1.06 | –0.79 |
| Month | 1.54 | 0.53 | 2.08 | 1.93 | 3.88 | 1.89 |
| Year | 21.12 | 16.50 | 17.84 | 17.89 | 19.19 | 15.78 |
| **Equities** | | | | | | |
| Week | 0.7 | 0.5 | 0.8 | 2.4 | 3.3 | 1.2 |
| Month | 1.0 | 6.7 | 2.8 | 0.1 | 6.7 | 1.2 |
| Year | 36.4 | 3.1 | 8.5 | 2.1 | -1.8 | 22.7 |



Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Not everyone in the investment community agrees. The highly successful investor Mr George Soros, for instance, argues that electronic trade is not intrinsically different from the old kind, just faster. It would be perfectly feasible to re-impose exchange controls, he says. Single countries could not do it, but groups of countries could.

Mr Soros is gloomily convinced that the present world order, which he regards as e golden age of capitalism, will ultimately break down. The last comparable period, he says, was the end of the 19th century. In those days, "the British Empire was at the heart of the system, and had an interest in maintaining security. When there was trouble, it eent a gunboat. Now there is no chief beneficiary [from stability]: certainly not the US."

Should the average investor worry about all this? Not for the time being, perhaps. Both of the likely protagonists in next year's US presidential elections, Mr Clinton and Mr Robert Dole, are professed free traders: although both will bear watching for signs of concessions to their respective outer wings.

The point is rather that the *case for a prolonged global bull* market contains an internal contradiction. On the one hand, we are told that multinational corporations are enjoying a one-off shift to greater prodnctivity and cheaper *labour, based largely on the* globalisation of markets. On the other, we are told the globalising process does not entail empoverishing one set of workers to the benefit of another. Free trade means faster *growth, so the pie gets bigger.*

This worked very well for small countries like Taiwan and Korea, which were able to develop and open up at their own pace. *It is* another matter, to paraphrase Sir James Goldsmith, when political upheaval, modern communications and the liberalisation of capital movements hurl 4bn workers into the world economy in the space of a few years.

Hence the internal contradiction. Proponents of the bull market argue thet the shift in power between capital and labour is profound enough to last for a generation. The *question is what that generation* will make of it. If it feels disposed to rebel, global free trade could be the first casualty.

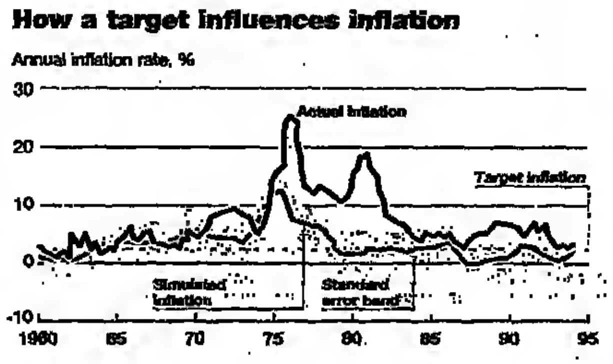
## Economics Notebook / Robert Chote

# Time to rewrite inflation target

Over the last five years many countries have edopted formal targets for inflation as the centrepiece of their economic policies. But turning e vaguely expressed enthusiasm for low inflation into a precise numerical objective is not as straightforward as it sounds.

For one thing, policymakers face a trade-off between the need to establish credibility and to demonstrate humility. Any target has to be demanding enough to persuade people that the authorities are serious about achieving low inflation; but it cannot be too demanding because credibility will then be lost again when the target proves impossible to hit.

**How a target influences inflation**




In 1992 Britain adopted a formal inflation target comprising three objectives: underlying inflation between 1 and 4 per cent until spring 1997; between 1 and 2.5 per cent in spring 1997; and below 2 per cent in the long term. The most demanding element sooo slipped from public consciousness, but the first two stayed in place. By last summer, however, the remaining target had to be updated. Interest rate changes take about two years to affect prices, so it was becoming too late to do much about inflation within the target period.

Mr Kenneth Clarke, the chancellor, announced therefore in his Mansion House speech that he would aim for underlying inflation of 2.5 per cent or less beyond spring 1997. He predicted this would keep inflation between 1 and 4 per cent most of the time, recognising that unexpected events might push inflation higher when it was too late for policymakers to react.

This formulation has caused confusion ever since and influential voices have argued that it needs rewriting again. Sir Terry Burns, the permanent secretary to the Treasury, said shortly before Christmas that the government should move away from targeting e range for inflation, concentrating instead on a single figure. Some senior officials at the Bank of England agree.

The Mansion House speech left many questions unanswered in the minds of City and academic economists. Was the new target looser or tighter than its predecessor? Was the inflation objective 1 to 2.5 per cent, 1 to 4 per cent or 2.5 per cent and below?

The conduct of interest rate policy in subsequent months only deepened the mystery. Mr Eddie George had told the chancellor in May that inflation was set to exceed 2.5 per cent in two years' time and that he should therefore raise rates. The chancellor refused because he thought inflation would be lower. Economists were unnerved by the disagreement, but at least both sides appeared to agree on the definition of the target - 2.5 per cent or below.

But in September the Bank muddied the waters. It continued to predict that inflation would exceed 2.5 per cent in two years' time, but dropped its demand for a rate rise. Shortly afterwards, Mr Mervyn King, its chief economist, argued that the target would be satisfied if inflation averaged 2.5 per cent or less *over a long period.* To observers who had thought the authorities were supposed to be erring on the side of caution - keeping inflation below 2.5 per cent except in unavoidable circumstances - this looked like a loosening of policy.

But in a sense it was simply a recognition of the inevitable limitations of inflation targeting. These limitations were demonstrated by Andrew Haldane and Christopher Salmon, from the Bank, in a study published last month*. They constructed a model of British inflation since 1960 and reran history as though the authorities had pursued a 2.5 per cent inflation target by setting interest rates on the basis of a forward-looking forecast.

The study suggested inflation would have been lower and less variable had the authorities followed this policy, as the graphic illustrates. But Haldane and Salmon also used the model to assess the possible outcomes for inflation had the economy been buffeted by the whole range of unforecastable outside disturbances which was typical of the period. They concluded that even if monetary policy had always been well directed, the authorities would have had only a one-in-four chance of hitting a 1 to 4 per cent inflation target: "Other things equal, these results would argue for an inflation target band width at least as wide as that operating in the UK - and possibly much wider."

This study provides further evidence that it may be counter-productive to express the inflation target as a range at all - be it 1 to 4 per cent or 2.5 per cent and below. If the range were wide enough for even a well-intentioned policymaker to be confident of hitting the target, it would have to be so wide as to provide little gain in credibility.

Finland has recognised this problem and aims simply for inflation of 2 per cent. The Bank of Finland concedes that it would be impossible to hit the target precisely in any given month, except by chance. But it argues nonetheless that a single figure provides a better anchor for private-sector expectations than a target range.

Mr King's comments and the Bank of England's advice this autumn suggest that the authorities in the UK may be behaving as though they have a point target for inflation slightly below 2.5 per cent - even though that is not what the formal statement of the target says. If so, the chancellor would do well to rewrite his target again so that it reflects reality in a rather clearer way.

**Targeting Inflation, Bank of England, 1995*

## COMMODITIES — Richard Mooney

# Anxious eyes focus on copper

London Metal Exchange dealers returning from their festive break today will be anxious to ascertain the new year mood of the copper market, which is likely to set the tone for other base metals contracts as well.

Last week's lightly-traded inter-holiday period ended with the copper market close to its 1995 low as stocks soared towards the excessive level at which they ended 1994. At 296,425 tonnes they were more than double the July low.

With further rises in stocks expected, analysts and traders were predicting further falls this week. "[Stop loss selling orders] were triggered below $2,665 earlier today," one trader told the Reuters news agency on Friday afternoon, "and more are likely to be lurking below $2,650. . . copper is back on shaky ground." Several analysts forecast that copper would drop to $2,500 in the medium term as new production capacity came on stream and stocks continued to accumulate.

The steady increase in stocks over recent weeks has been encouraged by big premiums available for immediate delivery at the LME. As the stocks have risen these premiums – known as "backwardations" – have narrowed. "If stocks keep rising, and we do expect they will, then the spreads should come in even more," Adam Rowley of Macquarie Equities told Reuters.

"At some stage in the first quarter of 1996 we are looking for quite a sharp fall in copper prices," he added. "With February/March at $80 to $90 backwardation it looks as if this period will stay tight," said Wolfgang Becker of Iceni Commodities Brokerage. "Obviously at some stage the whole thing will be reversed, but this sort of stock rise may be a bear trap."

Options traders told Reuters prices could overshoot downside targets if hedging against large put (selling) positions below the market gathered pace. "We are just waiting for copper's resilience to end and, when it does the market could collapse," one said.



## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY DECEMBER 29 1995 US Dollar Index | %chg since 30/12/94 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 30/12/94 | Gross Div. Yield | THURSDAY DECEMBER 28 1995 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (81) | 190.03 | 10.7 | 181.47 | 123.91 | 141.41 | 169.91 | 15.4 | 3.93 | 190.10 | 181.11 | 123.29 | 141.52 | 169.64 | 191.86 | 157.95 | 174.21 |
| Austria (26) | 174.53 | –4.5 | 166.67 | 113.81 | 129.87 | 129.79 | –11.8 | 1.81 | 174.46 | 166.21 | 113.15 | 129.87 | 129.79 | 199.28 | 167.48 | 182.56 |
| Belgium (34) | 209.14 | 24.2 | 199.72 | 136.37 | 155.63 | 151.79 | 14.8 | 3.45 | 208.89 | 199.01 | 135.48 | 155.50 | 151.55 | 209.14 | 168.52 | 168.21 |
| Brazil (28) | 137.93 | –15.5 | 131.71 | 89.94 | 102.84 | 246.76 | –3.0 | 1.79 | 137.90 | 131.38 | 89.44 | 102.66 | 246.78 | 183.17 | 86.06 | 163.07 |
| Canada (101) | 148.44 | 14.7 | 141.75 | 96.79 | 110.46 | 146.60 | 11.6 | 2.54 | 147.80 | 140.81 | 95.86 | 110.03 | 145.64 | 150.83 | 121.81 | 128.92 |
| Denmark (33) | 288.77 | 14.7 | 275.76 | 188.29 | 214.88 | 217.66 | 4.4 | 1.50 | 287.68 | 274.08 | 186.59 | 214.16 | 216.82 | 296.99 | 246.19 | 253.00 |
| Finland (25) | 187.07 | 0.8 | 178.54 | 121.98 | 139.20 | 179.48 | –7.8 | 1.88 | 186.29 | 177.47 | 120.82 | 138.68 | 178.48 | 276.11 | 171.13 | 185.91 |
| France (100) | 179.41 | 9.7 | 171.32 | 116.99 | 133.50 | 137.63 | 0.5 | 3.19 | 179.44 | 170.95 | 116.38 | 133.58 | 137.82 | 191.17 | 157.79 | 163.65 |
| Germany (59) | 163.69 | 14.2 | 156.32 | 106.74 | 121.81 | 121.81 | 5.5 | 1.98 | 164.99 | 157.19 | 107.01 | 122.82 | 122.82 | 167.74 | 139.11 | 141.35 |
| Hong Kong (55) | 387.70 | 18.9 | 370.23 | 252.80 | 288.50 | 384.87 | 12.8 | 3.79 | 384.39 | 366.22 | 249.31 | 286.16 | 381.54 | 389.39 | 277.40 | 326.07 |
| Ireland (16) | 255.51 | 23.8 | 244.00 | 166.61 | 190.14 | 224.62 | 19.4 | 3.41 | 254.18 | 242.16 | 164.86 | 189.22 | 222.84 | 260.87 | 204.97 | 205.77 |
| Italy (59) | 73.70 | –2.1 | 70.38 | 48.06 | 54.85 | 87.33 | –4.3 | 1.67 | 73.62 | 70.14 | 47.75 | 54.81 | 87.08 | 82.71 | 65.45 | 73.57 |
| Japan (483) | 154.93 | –1.3 | 147.95 | 101.02 | 115.29 | 101.02 | 2.1 | 0.78 | 155.13 | 147.80 | 100.62 | 115.49 | 100.62 | 154.80 | 138.95 | 156.71 |
| Malaysia (108) | 485.13 | 1.2 | 463.21 | 316.34 | 361.00 | 474.39 | 0.6 | 1.74 | 483.33 | 460.47 | 313.48 | 359.81 | 472.90 | 561.98 | 398.16 | 477.76 |
| Mexico (18) | 1035.78 | –26.9 | 989.10 | 675.38 | 770.74 | 6725.66 | 14.4 | 1.59 | 1045.05 | 996.62 | 677.80 | 777.96 | 6769.47 | 1435.21 | 647.81 | 1435.21 |
| Netherland (19) | 272.72 | 25.7 | 260.43 | 177.83 | 202.94 | 199.54 | 16.2 | 3.27 | 272.68 | 259.79 | 176.86 | 203.00 | 199.54 | 272.74 | 214.99 | 218.68 |
| New Zealand (14) | 79.55 | 13.1 | 76.07 | 51.94 | 59.27 | 64.69 | 10.7 | 4.49 | 79.31 | 75.56 | 51.44 | 59.04 | 64.35 | 85.49 | 69.74 | 70.77 |
| Norway (33) | 231.28 | 8.5 | 220.86 | 150.81 | 172.10 | 198.34 | 1.4 | 2.11 | 230.43 | 219.54 | 149.45 | 171.54 | 197.66 | 243.79 | 202.76 | 211.06 |
| Singapore (44) | 407.22 | 9.2 | 388.87 | 265.53 | 303.03 | 265.44 | 5.9 | 1.52 | 402.80 | 383.75 | 261.25 | 299.86 | 262.28 | 414.26 | 313.94 | 374.66 |
| South Africa (45) | 385.33 | 14.4 | 367.96 | 251.25 | 286.73 | 307.03 | 2.4 | 3.96 | 386.90 | 368.60 | 250.93 | 288.02 | 308.47 | 392.04 | 281.06 | 306.00 |
| Spain (38) | 165.19 | 25.2 | 157.75 | 107.71 | 122.92 | 151.83 | 15.4 | 3.85 | 164.00 | 156.24 | 106.37 | 122.08 | 150.45 | 166.19 | 124.10 | 129.44 |
| Sweden (47) | 312.09 | 35.0 | 298.03 | 203.50 | 232.24 | 306.20 | 20.4 | 1.96 | 311.60 | 296.87 | 202.10 | 231.97 | 305.68 | 321.98 | 229.29 | 229.29 |
| Switzerland (40) | 235.69 | 42.9 | 225.35 | 153.88 | 175.60 | 168.35 | 25.6 | 1.56 | 235.99 | 224.82 | 153.06 | 175.67 | 168.35 | 235.99 | 162.35 | 164.71 |
| Thailand (46) | 168.26 | 6.4 | 160.68 | 109.72 | 125.21 | 164.51 | 6.8 | 2.48 | 167.23 | 159.33 | 108.47 | 124.50 | 163.45 | 184.55 | 130.15 | 156.15 |
| United Kingdom (205) | 230.54 | 18.3 | 220.15 | 150.33 | 171.55 | 220.15 | 19.2 | 4.14 | 230.22 | 219.33 | 149.32 | 171.39 | 219.33 | 230.89 | 181.53 | 194.24 |
| USA (638) | 251.25 | 33.8 | 239.93 | 163.83 | 186.96 | 251.25 | 33.8 | 2.24 | 250.44 | 238.59 | 162.40 | 186.43 | 250.44 | 253.50 | 187.76 | 188.56 |
| Americas (786) | 228.99 | 31.4 | 218.67 | 149.31 | 170.39 | 192.47 | 32.0 | 2.24 | 228.26 | 217.47 | 148.05 | 169.92 | 191.85 | 230.76 | 173.81 | 174.89 |
| Europe (734) | 200.87 | 18.9 | 191.82 | 130.98 | 149.47 | 169.90 | 12.8 | 3.07 | 200.87 | 191.37 | 130.28 | 149.53 | 169.80 | 200.91 | 167.08 | 168.03 |
| Nordic (138) | 275.80 | 22.9 | 263.37 | 179.84 | 205.23 | 233.74 | 11.0 | 1.83 | 275.10 | 262.09 | 178.42 | 204.79 | 233.80 | 296.02 | 222.22 | 223.60 |
| Pacific Basin (831) | 165.23 | 0.8 | 157.79 | 107.74 | 122.95 | 111.37 | 3.2 | 1.18 | 165.26 | 157.45 | 107.19 | 123.03 | 110.89 | 171.87 | 145.80 | 184.19 |
| Euro-Pacific (1565) | 179.97 | 8.3 | 171.86 | 117.35 | 133.92 | 133.62 | 7.0 | 2.06 | 179.99 | 171.48 | 116.74 | 133.99 | 133.27 | 180.68 | 154.73 | 165.68 |
| North America (740) | 244.89 | 33.0 | 233.86 | 159.68 | 182.23 | 244.24 | 32.8 | 2.25 | 244.09 | 232.55 | 158.31 | 181.71 | 243.42 | 246.93 | 184.12 | 184.85 |
| Europe Ex. UK (529) | 180.44 | 19.2 | 172.31 | 117.66 | 134.27 | 142.54 | 9.3 | 2.46 | 180.58 | 172.04 | 117.12 | 134.43 | 142.70 | 180.58 | 149.53 | 150.30 |
| Pacific Ex. Japan (348) | 264.58 | 11.1 | 252.66 | 172.52 | 196.88 | 233.15 | 11.8 | 3.18 | 263.22 | 250.78 | 170.72 | 195.95 | 231.81 | 266.72 | 211.18 | 239.10 |
| World Ex. US (1757) | 180.89 | 8.1 | 172.73 | 117.95 | 134.60 | 137.35 | 6.9 | 2.10 | 180.91 | 172.35 | 117.33 | 134.67 | 137.01 | 181.59 | 155.42 | 166.67 |
| World Ex. UK (2191) | 199.57 | 16.7 | 190.57 | 130.13 | 148.50 | 185.23 | 15.6 | 1.96 | 199.31 | 189.88 | 129.27 | 148.37 | 164.79 | 199.76 | 163.46 | 170.97 |
| World Ex. Japan (1913) | 229.10 | 24.8 | 218.77 | 149.38 | 170.47 | 214.12 | 22.5 | 2.61 | 228.61 | 217.80 | 148.27 | 170.18 | 213.61 | 229.10 | 181.60 | 183.68 |
| The World Index (2396) | 202.29 | 16.9 | 193.17 | 131.90 | 150.53 | 170.12 | 15.9 | 2.16 | 202.03 | 192.47 | 131.03 | 150.33 | 169.64 | 202.52 | 165.82 | 173.03 |


Base values: Dec 31, 1986 = 100. Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local). Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 133.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 184.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 19/12/95: Deletions: BTR Nylex (Australia), Scott Paper (USA), Societe Generale De Belgique (VVPR) (Belgium) (following conversion into ordinary stock) and Veitscher Magnesit (Austria).

## EMERGING MARKETS: This Week

The Emerging Investor / John Pitt

# Looking ahead to brighter prospects

The year just ended has not been one that investors in the world's emerging equity markets will care to remember. Far better to look ahead to the brighter prospects that many strategists believe beckon in 1996.

But there were some winners during 1995 – a year in which what have become known as the "pre-emerging" markets came into their own.

Take Jordan, for example. capitalised at less than $5bn (compare this with Mexico's market capitalisation of about $90bn), and an annual turnover estimated at less than $1bn. (Mexico has an average *daily* turnover of at least $100m.)

A far sighted investor who took a position in the country's fledgling stock market at the start of last year would have seen dollar-denominated assets appreciate by 23 per cent. Compare this with a loss of 35 per cent in both India and Hungary, or 40 per cent in Sri Lanka.

Certainly one of the prominent themes of 1995 has been the growing interest in these pre-emerging markets: countries which are just beginning to organise their financial structures, but are endeavouring to do so as quickly as possible.

As the main emerging markets of Mexico, South Korea, Taiwan and Turkey, for example, retreated in the face of a flow of funds back into the developed world, so interest turned to lesser known regions. In particular, a race began among a number of US and European investment banks and brokerages to establish contacts and trading positions in Africa. It became clear that in this "new scramble for Africa" returns on investments could, in many cases, far exceed those in the more mature markets. But the risk would also be much greater.

This did not deter the launch of a number of African funds during 1995, although most were naturally skewed towards the largest market on the continent – South Africa. With an estimated market capitalisation of $274bn Johannesburg is the world's seventh largest stock exchange.

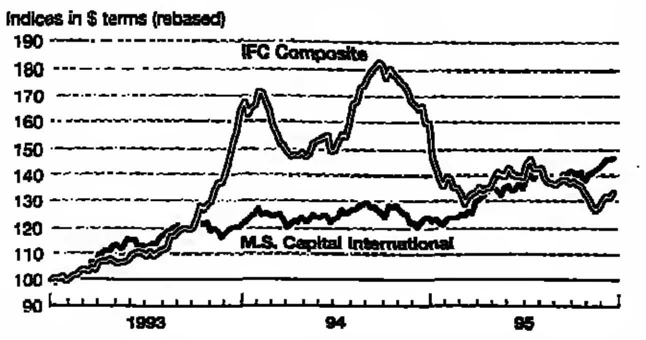
Russia was another growth area and some commentators believe that 1996 will see this market come of age, especially after the presidential election is out of the way. ING Barings global strategy unit led by Michael Howell, for instance, believes that both eastern Europe and Russia show attractive valuation levels, and thinks fund managers are ready to significantly increase their exposure.

"Of the $50bn expected to flow towards emerging equity markets in 1996, I expect some $5bn to head towards eastern Europe and Russia," says Mr Howell. "This is equivalent to more than 10 per cent of existing market capitalisation, and, perhaps, as much as 25 per cent of the existing free-float."

Other factors likely to lift investor sentiment in Russia include an improvement in custodial operations, with expectations that an independent central depository will finally be created.

**The tortoise and the hare**

Indices in $ terms (rebased)




Source: FT Extel

Mr Mark Mobius, president of the $7bn Templeton Emerging Markets Fund, is another enthusiast for Russia, although he is aware that the country's turbulent political climate is likely to get worse before it gets any better.

Nevertheless, he is confident that potential for investment is bright, given that the country has embarked on what he calls a "revolutionary" approach to financial market reforms.

But what of the core emerging markets?

Mr Arnab Banerji, chief investment officer of Foreign & Colonial Emerging Markets based in London, believes that in spite of a disappointing return on investments in 1995 the outlook remains positive. He picks South Korea, India, Brazil and Taiwan, among others, as having strong prospects.

India, for example, continues to have good compound earnings growth, he says.

He is also among a number of strategists who favour Brazil among Latin American markets.

Garantia, a leading Brazilian investment bank, warns that slower economic growth during the first half of the year will put a brake on the stock market's momentum; while for the year as a whole it will be very much a matter of selecting specific sectors. Garantia favours the food, beverage, packaging and retail sectors, on the basis that the recent decline in inflation means that many people now have a disposable income for the first time in years.

At UBS the emerging markets team is keen on Chile, South Korea and Turkey, all for different reasons. Chile will continue to see an improvement in the economic picture and political problems are forecast to dissipate; South Korea is expected to benefit from an easing in monetary policy; and Turkey should be able to move forward once again now that the parliamentary elections are out of the way.

Chile will also benefit from the increased weighting – from 1.9 per cent to 7.3 per cent – which the equity market will attract in the IFC's investable index which starts this month. Mr Nigel Rendell at James Capel, who classifies Chile as "an Asian tiger living in Latin America", forecasts that despite the recent rise in interest rates, corporate earnings will rise by 25 per cent in nominal terms, valuing the market on a prospective p/e of 16 times.

Whether or not this year will see a pick-up in activity among the world's emerging markets depends on a host of factors, not least the movement in US interest rates. Further easing in US monetary policy, many analysts believe, could trigger a fresh wave of institutional money out of the US and Europe, and into Latin America and the Far East.

## News round-up

### ■ Zambia

Zambia's stock market will struggle to trade for the foreseeable future due in a growing crisis in the banking sector, analysts have said, *Reuter reports from Lusaka.*

Several large institutions have been unable to participate in the stock exchange because their money has been tied up in four collapsed financial institutions.

Four banks collapsed between May and November, leaving 16 in the country.

A Rothmans of Pall Mall Zambia public offer, which closed on December 7, for example, was grossly under subscribed because the pension schemes and other institutions expected to have participated had their money tied up.

### ■ Thailand

The average daily turnover on the Bangkok stock exchange in 1995 fell by 27.5 per cent from Bt8.6bn to Bt6.25bbn.

Foreign trading on the SET over that period was Bt804.36bn, accounting for 26.35 per cent of total trade.

Foreign buying was worth Bt425.3bn in the period, while selling accounted for Bt379.03bn.

### ■ Hong Kong

The Hong Kong stock exchange will review regulations on options trading in the first quarter of 1996 and does not expect to launch new options during the review period.

The review would cover the proposal that market makers should be exempt from stamp duty when they conducted arbitrage with the spot market to spread risks.

The exchange will also study changes to rules governing opening bids and how to increase the number of market participants, including market makers

The exchange began listing individual stock options in September and currently trades options on nine stocks.

### ■ Indonesia

Further state asset sales, an updated legal framework and automation could mean a bright start to the year for the Jakarta stock exchange, brokers and analysts believe.

The exchange switched to a fully automated trading system from manual operations in May, after long delays. This coincided with a move to new premises in the central business district, and the extension of trading by 90 minutes each session.

Brokers and analysts said the automated system had helped raise efficiency and transparency and add liquidity. The fully automated trading system would also provide a springboard for a planned move to fully scripless trading, expected in the next few years.

The government is expected to list many of the more than 200 state companies in the next few years.

### ■ Philippines

The Manila equities market, which languished for much of last year, is expected to rebound strongly during 1996 as more companies are listed.

The authorities expect the creation of a central depository, the start of scripless trading and tighter rules to prevent insider trading to boost sentiment.

Some brokers said they expected up to 30 companies to list.

However, inflationary pressures in the first quarter could be brought about by an impending increase in domestic oil prices.

At present, about 200 companies are listed.

A central depository would begin operations for treasury bills and government bonds in March before expanding to shares by the third quarter of 1996.

● *Further coverage of emerging markets appears daily on the World Stock Markets page.*

**ING Baring Securities Emerging Markets Indices**

| Index | 29/12/95 | Week on week movement Actual | Percent | Month on month movement Actual | Percent | Year to date movement Actual | Percent |
|---|---|---|---|---|---|---|---|
| World (301) | 147.56 | -0.47 | -0.32 | +7.78 | +5.57 | -10.47 | -6.63 |
| **Latin America** | | | | | | | |
| Argentina (20) | 92.78 | -0.14 | -0.15 | +11.73 | +14.47 | +6.67 | +7.74 |
| Brazil (21) | 186.09 | +2.03 | +1.10 | +10.86 | +6.20 | -23.28 | -11.12 |
| Chile (12) | 195.67 | -3.52 | -1.77 | +16.82 | +9.41 | -15.90 | -7.52 |
| Mexico (25) | 73.59 | -2.31 | -3.04 | +1.79 | +2.48 | -24.03 | -24.62 |
| Peru(17) | 1068.95 | +27.09 | +2.60 | +65.34 | +6.51 | +220.28 | +25.96 |
| Latin America (95) | 123.14 | -0.65 | -0.52 | +7.87 | +6.83 | -15.63 | -11.26 |
| **Europe** | | | | | | | |
| Greece (18) | 87.97 | +1.69 | +1.97 | +4.20 | +4.48 | +10.98 | +12.62 |
| Portugal (18) | 118.46 | +0.55 | +0.47 | +1.30 | +1.13 | +0.18 | +0.15 |
| Turkey (21) | 82.80 | -7.41 | -8.22 | -1.31 | -1.56 | +6.89 | +8.79 |
| Europe (55) | 121.53 | -0.85 | -0.70 | +5.14 | +4.42 | +23.84 | +24.40 |
| **Asia** | | | | | | | |
| Indonesia (26) | 138.64 | -1.53 | -1.09 | +5.10 | +3.82 | +4.96 | +3.71 |
| Korea (23) | 136.90 | -1.12 | -0.81 | -7.79 | -5.38 | -2.98 | -2.13 |
| Malaysia (23) | 227.37 | -0.26 | -0.12 | +10.63 | +4.90 | +16.51 | +7.83 |
| Pakistan (11) | 73.59 | +1.54 | +2.14 | +10.10 | +15.90 | -32.61 | -30.70 |
| Philippines (11) | 259.16 | +4.54 | +1.78 | +17.63 | +7.30 | -22.96 | -8.14 |
| Thailand (25) | 251.89 | -2.19 | -0.86 | +18.41 | +6.97 | +0.24 | +0.10 |
| Taiwan (32) | 130.82 | +2.11 | +1.68 | +12.00 | +10.10 | -53.33 | -28.96 |
| Asia (151) | 203.04 | +0.12 | +0.06 | +9.38 | +4.84 | -7.57 | -3.60 |

All indices in $ terms. January 7th 1993=100. Source: ING Baring Securities

## CURRENCY MARKETS

Philip Gawith

# Traders pin hopes on dollar

If foreign exchange traders have their wishes granted, 1996 will be a year of volatile markets. Last year was much better than the dismal spectacle of 1994, but the last few months were characterised by the US dollar trading in a very narrow range.

There is a fair amount of bullishness among currency forecasters about the outlook for the dollar, though in recent years it has managed to confound the best intended explanations for why it should rally.

Analysts at Lehman Brothers think that the dollar stands to benefit in the coming months from: perceptions that inflation has become structurally lower, a modest improvement in the current account deficit as a proportion of GDP, and resolution of the budget negotiations.

They caution, though, that any rally could run into the buffers in the second half of the year, which may be dominated by a turn-round in German interest rate expectations.

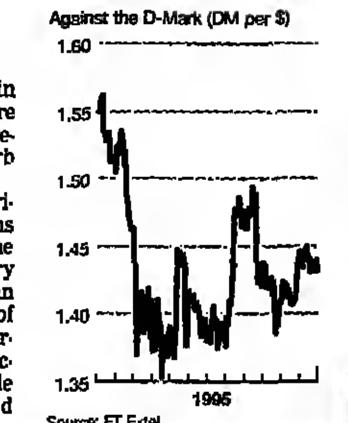
Analysts at Goldman Sachs are also bullish about the dollar, forecasting levels of DM1.55 and Y112 in the next six months. Against the yen, their thinking is based upon trends in the trade and current account data of both the US and Japan, which suggest that the big bilateral balances between the countries are turning in the dollar's favour.

Against the D-Mark, their thinking departs from the premise that the German economy is suffering from the misalignment of the D-Mark in Europe, and this will require the Bundesbank to ease monetary policy in order to curb D-Mark strength.

Politics will be a key variable. US presidential elections will affect the dollar, while the progress towards monetary union in Europe will also be an important determinant of D-Mark and Swiss franc performance. The proximity of elections in the UK, and a possible Labour government, could make life difficult for sterling.

**Dollar**

Against the D-Mark (DM per $)




Source: FT Extel



**FT GUIDE TO WORLD CURRENCIES**

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 29, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 7314.85 | 4750.00 | [illegible] | [illegible] |
| Albania | (Lek) | 145.712 | 93.8600 | [illegible] | [illegible] |
| Algeria | (Dinar) | 81.0089 | 52.1750 | [illegible] | [illegible] |
| Andorra | (French Fr) | 7.5928 | 4.8905 | [illegible] | [illegible] |
| | (Sp Peseta) | 188.355 | 121.320 | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Special Drawing Rights December 29, 1995 [illegible]

[illegible]



CIR

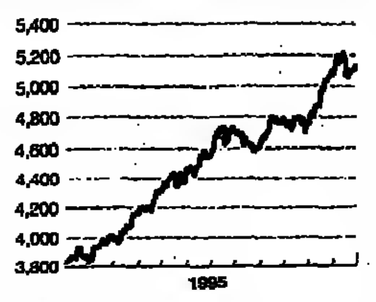
Olivetti

# EQUITY MARKETS: This Week

## NEW YORK — Richard Waters

# Investors face a dearth of economic data

Dow Jones Industrial Average




Source: FT Extel

Thanks to the latest Federal government shutdown, US stock market investors start the new year facing a dearth of official economic data against which to judge the economy's performance.

The only significant new information this week will be the National Association of Purchasing Management report for December, due today. The headline NAPM index for the month is expected by most economists to be around 47.5 – higher than November's 46.5 but still below the 50-mark which would point to expectations of manufacturing growth. That would provide a firm backdrop for the bond market, whose recent gains have underpinned share prices.

While keeping one eye on bonds, the stock market will begin to fix its attention on the corporate earnings season starting later this month.

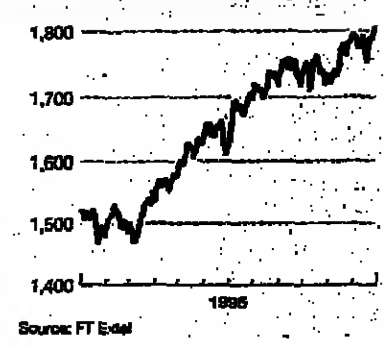
Three months ago, a generally strong set of quarterly results helped set the stage for the stock market's fourth-quarter rise. This time around, the figures will be pored over for signs of how the US's economic slowdown is affecting earnings growth.

Most market followers expect earnings growth to taper off during 1996. But corporate cost-cutting and share repurchases have left plenty of room for earnings to come in ahead of expectations. And with US investors still buying mutual funds, there seems to be plenty of cash around to chase share prices higher.

## LONDON — Philip Coggan

# Year expected to open on positive note

FT-SE-A All-Share Index




Source: FT Extel

The UK market starts what could be a general election year in a healthy spirit. A base rate cut in December, accompanied by reductions in European and US interest rates, creates a positive background for equities.

With most observers expecting base rates to fall further in the early months of 1996, shares could yet set some more all-time highs. While the FT-SE 100 index did well in 1995, it still lagged well behind Wall Street's phenomenal performance.

The first test of the year will be the spring results season, not so much for the figures themselves, but for chairmen's statements about trading conditions in early 1996. The market shrugged off some profits warnings in late 1995, mainly on the hope that UK economic growth was pausing for breath, rather than grinding to a halt.

As the year moves on, thoughts will inevitably turn to the date of an election, and the chances of a Labour government.

Concern will probably focus, not on macro-economic policies, but on micro-economic matters such as the minimum wage or dividend taxation. If Labour maintains its strong lead in the opinion polls, shares may start to come under pressure.

Much went right for the UK stock market in 1995 – takeover activity, a strong Wall Street, falling bond yields and worldwide interest rates. It will be a surprise if all those factors are still as positive in 1996.

## OTHER MARKETS

### STRATEGY

The start of the new year has brought the usual crop of recommendations from brokers. Spain and Sweden feature among the lists as potentially good performers in 1996 while the time may now be ripe to take profits on Switzerland after its strong run last year.

Views on Italy are divided, with some analysts thinking the time is right to give the market another chance but others finding the political outlook still unappealing.

J.P. Morgan expects equity markets to remain volatile, with positive responses to interest rate cuts probably offset in part by continuing bad news on earnings.

Morgan reiterates its underweighting of Paris, saying France is expected to experience one of the slowest growth rates in Europe next year. It is taking profits on a previous upgrade of the Swiss market and switching the money into Italy, which it believes is discounting the bad news and could react positively to a relaxation of monetary policy.

Morgan says the low valuation on its forecasts and scope for interest rate cuts makes the Swedish market look attractive after its recent underperformance.

Lehman Brothers still recommends being overweight in the Spanish, French, Swedish and Dutch markets. It says the first two are cheap, relative to debt, while slower French growth has been more than discounted by the market.

Sweden looks attractive on a prospective dividend basis, while the Dutch market is the cheapest among the core European economies.

The UK, Swiss and Italian markets remained relatively expensive. Liquidity flows had helped the first two, but value would come through. In spite of its underperformance, Lehman saw little value in Italy.

ABN-Amro Hoare Govett, meanwhile, continues to prefer Germany and the Netherlands in core Europe while Spain is its peripheral market of choice. And while Italy's valuations have improved, ABN still does not trust the politics.

### TOKYO

With the Year of the Pig ending on a note of slight recovery, some market participants are hoping that the Year of the Rat will be a good one for the Japanese shares, *writes Emiko Terazono*. Past Years of the Rat have seen the market rise by an average of 54.6 per cent, and the animal is regarded by believers of traditional omens as a favourable sign for investments.

Stocks may need all the help they can get since banks and life insurance companies are expected to sell their share holdings ahead of the March book-closing. Analysts point out that there has been heavy trading around 21,500 and regard that figure as a strong resistance level.

### HONG KONG

Further gains are expected among equities this week after Friday's year-end window dressing and solid gains in the futures market, which took the Hang Seng index to intra-day and closing highs for 1995.

Analysts are concerned, however, that the near-term outlook for recently active newspaper stocks remains cloudy in view of their weak earnings prospects. They add that the decision to relax conditions governing the pre-sale of uncompleted flats will benefit developers, although it will not have much stimulative effect on the local property market.

### FRANKFURT

The Bundesbank meets on Thursday, but having cut key rates at its last meeting, no action can be expected on the discount or Lombard rates this week.

James Capel says the Bundesbank Council will wish to assess the impact of the monetary easing on M3 and the real economy over some weeks.

The most interesting feature of the meeting was likely to be what the council said about the repo rate.

"We would expect a fairly prompt return to a variable repo rate, which is likely to drift lower over the coming weeks," says Capel.

On the corporate front, analysts are expecting a let-up in the number of new bourse listings in 1996 after last year's flood, although November will bring the flotation of Telekom, Germany's telephone monopoly, which is expected to raise DM15bn.

Companies raised a record DM8.5bn in new funds in 1995 from 20 IPOs, including the listing of Merck, the drugs group, that was Germany's largest post second world war stock offering, which raised DM2.4bn, and the Adidas placement, which raised DM2.1bn.

### DUBLIN

Even after last year's performance, which saw the Irish equity market climb by 20 per cent to end among the best performing markets in Europe for the third successive year, Dublin retains its enthusiasts.

Mr Robbie Kelleher at Davy Stockbrokers in Dublin says the market has more than doubled since the trough of October 1992 but still expects the ISEQ to be among the top performing indices in 1996.

"Valuations remain low, both by historic and international standards, the Irish economy is likely to be the fastest growing economy in in Europe again in 1996 and the strength of corporate cash flows and balance sheets is likely to restrict the supply of new equity to a minimum," he says.

How this better relative performance translates into absolute performance depends on developments in other markets.

Mr Kelleher believes the international equity market rally can be sustained in the early part of 1996, on the back of continuing support from low interest rates, low inflation and rising bond prices.

*Compiled by Michael Morgan*

## International offerings

# CVRD mandate suggests end of the golden 3% fee

The debate about fees which investment banks charge for arranging international equity offerings is set to be a lively one in 1996, judging from the aggressive bids which emerged in tha recent competition to win Brazil's Companhia Vale do Rio Doce (CVRD) mandate.

Shortly before Christmas, the Brazilian government said it bad chosen a consortium including Merrill Lynch, N.M. Rothschild, KPMG and four Brazilian partners to handle the sale of its 51 per cent stake in CVRD, one of the world's largest exporters of iron ore.

The winning consortium is charging a fee of 1.9 per cent to arrange what is expected to be one of the most significant international equity offerings of 1996. According to market valuations, the government's stake is worth about $5bn but the sale is likely to be spread over at least two offerings.

If the winners' fee looked low, it was by no means the lowest. Bankers involved in the bidding said a consortium led by Lehman Brothers had offered to do ths business for a fee of 1.75 per cent and another including CS First Boston for 1.9 per cent.

It is also believed the fee bid by the consortium including Morgan Stanley and SBC Warburg (disqualified because the first part of its fee estimate was too far below the average) was in this region.

By contrast, Goldman Sachs, which had coma top in the technical part of the bidding contest, had bid a fee of 3.125 per cent, bankers said.

Bankers involved in the consortium which won the CVRD mandate say the level of the fee was justified because the sale will be a secondary offering and not an initial public offering, which usually commands a higher fee.

*Half of the CVRD stock is* already traded, making CVRD the most widely-beld stock after Telebras and Petrobras. As a result, it already has a wide following among foreign analysts and investors.

They also point out that there is a history of low fees in Brazil, where past international equity offerings have been done for fees of just over 2 per cent. But the two most important reasons bankers give to justify the fee are: first, the size of ths offering; and second, the importance of being involved in the first of many privatisations in Brazil.

Although bankers do not expect the government to sell its CVRD holding in one go, the arranging banks stand to earn close to $100m from the whole process.

On the second point, the bidding highlighted the willingness among intarnational banks to drop their fees in order to be at the forefront of Brazil's privatisation programme.

Tha government wants CVRD to pave the way for further sell-offs in the country's electricity and telecommunications sectors over the next few years.

*The fact that three leading* investment banks were willing to arrange the CVRD sale for a fee of less than 2 per cent, despite the risks associated with an emerging market such as Brazil, is also a reflection of the increasingly intense competition in the international equity market.

Once one of the most lucrativa sectors of investment banking, fees for arranging deals, particularly privatisations, hava been eroding steadily over the past two years.

This has come about as governments seek to maximise the proceeds of selling off state assets and new players try to break into the market.

The downward pressure on fees has been mainly on privatisations, where there is likely to be follow-on business for the banks, and less so on corporate IPOs or secondary offerings. However, there are signs that corporate fees are also coming under pressure.

In view of the ever-greater number of privatisations in Europe and elsewhere in the world and the growing number of investment banks wanting a slice of the action, it is inevitable that fee levels have become one of the main bargaining tools.

With competition set to stiffen further, many bankers now believe the golden 3 per cent level, once the norm for European privatisations, has gone for good.

**Antonia Sharpe**

TOP INTERNATIONAL EQUITY BOOK RUNNERS

| Manager | 1995 $bn | Rank | % | Issues | 1994 $bn | Rank | % | Issues |
|---|---|---|---|---|---|---|---|---|
| Goldman Sachs | 5.83 | 1 | 13.44 | 52 | 6.32 | 1 | 11.32 | 44 |
| Morgan Stanley | 4.33 | 2 | 10.00 | 37 | 3.17 | 3 | 5.68 | 44 |
| Merrill Lynch | 3.17 | 3 | 7.30 | 38 | 5.43 | 2 | 9.72 | 57 |
| SBC Warburg | 3.00 | 4 | 6.92 | 27 | 3.05 | 4 | 5.46 | 20 |
| CSFB/Credit Suisse | 2.51 | 5 | 5.79 | 18 | 2.64 | 7 | 4.73 | 31 |
| Dresdner-Kleinwort | 2.47 | 6 | 5.70 | 12 | 1.76 | 10 | 3.15 | 6 |
| UBS | 1.75 | 7 | 4.03 | 11 | 0.45 | 29 | 0.81 | 4 |
| ABN-Amro HG | 1.66 | 8 | 3.83 | 7 | 1.53 | 12 | 2.75 | 8 |
| BZW | 1.65 | 9 | 3.81 | 5 | 1.60 | 11 | 2.86 | 18 |
| Lehman Brothers | 1.44 | 10 | 3.33 | 21 | 2.79 | 5 | 4.99 | 33 |
| Industry totals | 43.36 | | 100 | 342 | 55.88 | | 100 | 449 |

Excluding funds and block trades. Source: Euromoney Bondware

Goldman Sachs maintained its position as the leading global co-ordinator of international equity issues in 1995, according to data from Euromoney Bondware, Antonia Sharpe writes.

Goldman's involvement in Germany's privatisation of Deutsche Telekom, scheduled for November, should ensure it retains the top slot in 1996. However, winning the CVRD mandate in Brazil, which is also set to emerge in the second half of the year, has increased Merrill Lynch's chances of taking the lead.

Although Morgan Stanley, Merrill Lynch, SBC Warburg, CS First Boston, Dresdner Bank-Kleinwort Benson and Lehman Brothers remain among the top 10 global co-ordinators for 1995, Deutsche Morgan Grenfell, Paribas and BNP have been displaced by UBS, ABN-Amro and BZW.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

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## PUBLIC NOTICES

SIB

THE SECURITIES AND INVESTMENTS BOARD

THE FINANCIAL SERVICES ACT 1986

- Global Currency Limited (registered office at 37 Upper Mount Street, Dublin 2, Republic of Ireland)
- Richard Duncan Hexton (of Flat C, 6 Cromwell Crescent, London SW5 9QN)
- Michael Ivor Braff (formerly of Suite 206, Wickham House, 10 Cleveland Way, London, E1 4TR and 13 Ely Place, Dublin 2, Republic of Ireland and currently of 36b St Michael's Street, London W2)
- Beambrook Limited (registered office at 8 Duke Street, London W1M 5AA)
- Denro Investments Limited (registered office at The Hawthornes, Wareside, Hertfordshire SG12 7RL).

*If you are an investor who provided in the period May 1993 to July 1994 funds to one or more of the persons set out above to be managed by them, you should send (do not telephone) to The Securities and Investments Board (Gavrelle House, 2-14 Bunhill Row, London EC1Y 8RA, for the attention of Guy R W Sears) as soon as possible, and in any event to arrive no later than 5 February 1996, the following information:*

- your full name and address
- *full particulars of the sum(s) that you provided to be managed*
- copies (not originals) of all documents concerning the investment that you made
- documentation (a receipt from any of the above persons is not sufficient) evidencing the payment that you made
- how much, if anything, you think you are owed and by whom

*Please note, if you fail to send the above details to The Securities and Investments Board, it is highly unlikely that any claim that you might have to restitution or compensation will be supported.*

A/S Eksportfinans (Norske bankers finansierings- og eksportkredittinstitutt) which translates; A/S Eksportfinans (The Norwegian banks' financing and export credit institute Ltd.) has, with effect from January 1, 1996 amended its name to:

EKSPORTFINANS as

At the same time, the Articles of Association have been amended. One of the amendments is related to the Shareholders' guarantee. The Shareholders' guarantee for debt incurred by the company on and after January 1, 1996 has been terminated. Obligations undertaken by the company prior to this date will not be affected by the termination of the Shareholders' guarantee.

Further information regarding the amendments to the Articles of Association will be given by the company upon request.

Please also note the change of the company's telephone, fax number, and logo:

Telephone +47 22 01 22 01 - Telefax +47 22 01 22 02

EKSPORTFINANS

Eksportfinans as - P.O.Box 1601 Vika, N-0119 Oslo, Norway
Telephone +47 22 01 22 01 - Telefax +47 22 01 22 02

Lit 283,000,000,000
CIR International S.A.
2 per cent Guaranteed Exchangeable Notes
Due 1998 (the "Notes")
Unconditionally and irrevocably guaranteed as to payment of principal interest by

CIR

CIR S.p.A. - Compagnie Industriali Riunite
exchangeable for ordinary shares of Lit. 1,000 par value each of

olivetti

Olivetti S.p.A.
("Olivetti Shares")

In accordance with Condition 17 of the Notes we hereby give notice that as a result of the sale of rights attached to Exchange Property (as defined in the Conditions of the Notes) in accordance with Condition 7 (D) of the Notes, the composition of the Exchange Property has changed with the result that each holder of Lit 1,000,000 principal amount of Notes is now entitled to have the redemption moneys arising on each such principal amount of Notes tendered for exchange applied on its behalf to acquire 413.934 Olivetti Shares.

CIR SpA — January 2, 1996



Sovereign Investment Linked Securities One
U.S.$49,000,000 Floating Rate Notes due 2002 (Series A1 (the "Notes")

Notice is hereby given that the Rate of Interest for the Interest Period January 2, 1996 to July 1, 1996 has been fixed at 5.83125% and that the interest payable on the relevant Interest Payment Date July 1, 1996 against Coupon No 3 will be US$29,569.62 in respect of US$1,000,000 nominal of the Notes

January 2, 1996, London
By: Citibank, N.A. (Issuer Services), Agent Bank — CITIBANK





USD 10,000,000,000
EURO MEDIUM TERM NOTE OF SOCIETE GENERALE, SOCIETE GENERALE ACCEPTANCE NV AND SOCIETE GENERALE AUSTRALIA LIMITED
SERIE N°47
SOCIETE GENERALE
USD 200,000,000 FLOATING RATE NOTES DUE DECEMBER 2008
ISIN CODE : XS0047942577

Notice is hereby given to the Noteholders that, pursuant to the Terms and Conditions of the Notes, the rate applicable to the period from December 29th, 1995 to March 29th, 1996 has been fixed at 6,1875 % P.A.
Next payment date : March 29th, 1996
Coupon nr : 9
USD 156,41 per Note in the denomination of USD 10,000
USD 1 564,06 per Note in the denomination of USD 100,000
The Principal Paying Agent — SOGENAL
SOCIETE GENERALE GROUP
15 ,Avenue Emile Reuter - LUXEMBOURG

Commonwealth Bank Australia
Commonwealth Bank of Australia ACN 123 123 124
(successor in law to the State Bank of Victoria)

U.S. $125,000,000
10-Year Extendible Floating Rate Capital Notes

For the six months 29th December, 1995 to 28th June, 1996 the Notes will carry an interest rate of 5.66719% per annum with an interest amount of U.S. $286.51 per U.S. $10,000 Note and U.S. $2,865.08 per U.S. $100,000 Note. The relevant interest payment date will be 28th June, 1996.

Listed on the London Stock Exchange

Bankers Trust Company, London — Agent Bank



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# WORLD BOND MARKETS: This Week

## NEW YORK
Richard Tomkins

US Treasuries passed a milestone last week. On Wednesday, the yield on the benchmark 30-year long bond ended the day below the psychologically significant 6 per cent level for the first time in two years. On Thursday and Friday, it edged down further still, closing the week – and the year – at 5.94 per cent, in marked contrast to the 7.92 per cent at whicb it started the year.

The question now is whether yields will fall further still, and Wall Street analysts believe they will. Most indicators point to a weakening of economic growth in the coming year, further diminishing inflationary pressures.

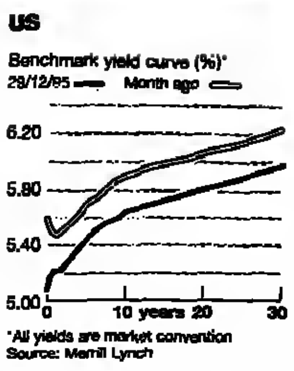
With recession an increasing possibility, analysts confidently expect the Federal Reserve to continue to reduce the Fed funds rate, with the next downward movement pencilled in for the Federal Open Market Committee meeting of January 30–31.

This week, however, could be a quiet one in the bond market, for any agreement between the president and Congress over a balanced budget will almost certainly come too late to allow the flow of government data to resume before the weekend.

Most attention is likely to focus on today's publication of the National Association of Purchasing Managers index for December. This is expected to show a slight increase from November's 46.5.

**US**

Benchmark yield curve (%)*




*All yields are market convention
Source: Merrill Lynch

## LONDON
Conner Middelmann

All eyes in the UK government bond market this week will be on gilt sale and repurchase agreements, or repos, which starts today.

"A whole new world of leverage trades, reverse repos, term stock loans, buy/sells, matched books and, hopefully, very little mayhem will transform the gilt market," say analysts at HSBC Greenwell.

"We are entering a new evolutionary phase in the market. Repos will impact on pricing, liquidity management, swaps, curve plays and ultimately, we suspect, on official intervention in the money market."

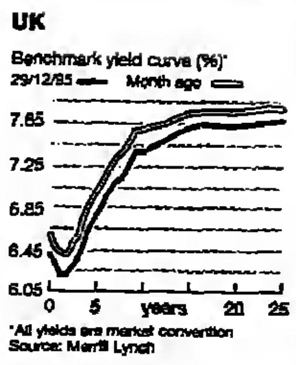
But in the near term, trading is unlikely to be heavily affected by repos and after trading in a narrow range last week, gilts will have to look elsewhere for life to be breathed back into the market.

The data front offers slim pickings, with M0 figures and the purchasing managers' report for December scheduled as the only releases this week.

"M0 will be viewed with interest for what it reveals about consumer demand in December – a month which accounts for over one-quarter of total annual retail sales," notes Mr Nigel Richardson of Yamaichi International. "The weekly notes in circulation data suggest that there was a seasonally adjusted increase in M0 of almost 1 per cent on the month – this would appear to confirm retailers' reports of strong sales in December."

**UK**

Benchmark yield curve (%)*




*All yields are market convention
Source: Merrill Lynch

## FRANKFURT
Andrew Fisher

The German bond market market ended the year quietly but positively, with bund futures generally expected to remain firm.

Inflation, now below 2 per cent, is clearly under control and economic growth is modest at best. Thus the Bundesbank can sit tight after its pre-Christmas interest rate cuts.

With the discount rate now down to 3 per cent, the chances of a further reduction are rated as no more than slight by most economists.

It has only once fallen below 3 per cent in the last three decades – just after the 1987 stock market crash, when it stayed at 2.5 per cent for six months.

Mr Holger Fahrinkrug, an economist at Union Bank of Switzerland, said the discount rate was not likely to fall so low in this cycle.

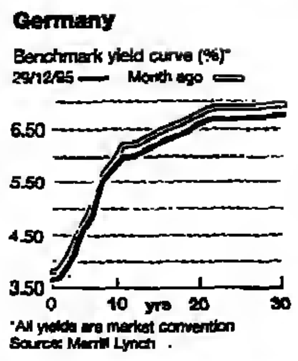
"However," he added, "this does not mean that monetary easing is over."

The securities repurchase (repo) rate should fall below the current 3.75 per cent. Also, the 5 per cent Lombard rate could also be lowered, since the bottom of previous cycles has seen it at 4 or 4.5 per cent.

If the money supply remains weak, the Bundesbank could cut interest rates further, said Mr Bill Smyth of BHF Trust. But the 1987 discount cut to 2.5 per cent did not produce a powerful bond rally, be noted.

**Germany**

Benchmark yield curve (%)*




*All yields are market convention
Source: Merrill Lynch

## TOKYO
Emiko Terazono

While the country's financial institutions' woes are likely to prompt the Bank of Japan to maintain an accommodating stance in its money market operations, it is expected to push up interest rates on the long end.

Banks are expected to step up their profit-taking on bonds and stocks ahead of the Marcb book-closing in order to cover losses stemming from the write-offs of bad loans.

Many of the leading banks have pledged to clear their balance sheets of bad loans related to *jusen*, or housing loan companies, and some have announced that they may fall into the red for this business year to March.

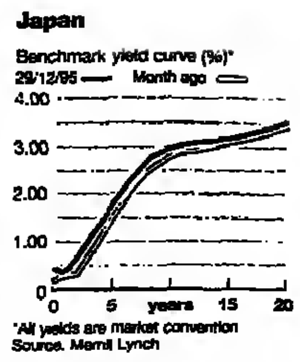
Life insurance companies may also want to take profits on their bond boldings due to the decline in insurance premiums. While the leading insurers posted healthy rises in their recurring profits for the first half to September, this was largely due profit-taking on their investments.

The seasonal repatriation of funds from the US ahead of the March book-closing may briefly put upward pressure on the yen on the foreign exchanges, but this is unlikely to have a lasting impact on bond prices.

Lehman Brothers in Tokyo estimates yields on the 10-year government bond, which closed the last year at 2.9 per cent, to end at 3.4 per cent at the end of the first quarter of this year.

**Japan**

Benchmark yield curve (%)*




*All yields are market convention
Source: Merrill Lynch

Government bonds

# Investors assess their strategy for 1996

The scale of tbe rally in international government bonds over the last six months surprised the markets and left many investors scrambling to increase their exposures.

In assessing their strategy for this year, investors must weigh up the extent to which benign economic fundamentals, especially for the US and European markets, are already reflected in valuations.

At the same time, the markets could be affected by a number of political uncertainties linked to the US presidential elections and the creation of European Monetary Union.

European bonds provided investors with some of the best returns in 1995 – with returns (in local currency terms) to December 15 ranging from around 15.3 per cent in France and 15.5 per cent in Germany to 19.3 per cent in Sweden.

Over the last few weeks there has been a wealth of evidence that the growth of core economies such as Germany and France is grinding to a halt and that inflationary pressures are continuing to ease.

Furthermore, at their Madrid summit last montb European leaders and finance ministers reaffirmed their commitment to monetary union, suggesting the reduction of fiscal deficits will remain a priority for governments across the continent.

"Europe is shaping up for a common currency and that suggests governments will wrestle to bring public finances under control. These are developments bond investors will be pleased to see," says Mr Craig Shute, bond analyst at Bear Stearns International in London.

Similar "bond-positive" forces are visible in the US, where Treasuries provided investors with total returns of more than 17 per cent in 1995. And the current market rally has very different characteristics to that of 1993, which gave way to a sell-off early in 1994.

During 1993, the markets were expecting further monetary tightening – now by contrast, further cuts in interest rates are expected. The inflation rate is falling – it was rising in 1993 – and some analysts argue that investors have yet to fully adjust their expectations to the extent of tbe downward trend in inflation.

Mr Nigel Richardson, international bond strategist at Yamaichi International, says US inflation – as measured by the consumer price index – bas not been as low as its current level of 2.6 per cent since 1972. The present situation "bolds out the possibility that there may be a permanent return to 1960s–style price increases," suggests Mr Richardson.

Yet according to the a survey of economic forecasts by Consensus Economics Inc, investors expect US inflation to rise to 3.1 per cent in the longer term.

"They are responding fully to the current inflation background on the grounds that they appear to doubt it will be maintained. In essence, therefore, the bond market has 1980s style yields against a background of 1960s style inflation," says Mr Richardson.

However, there are also good reasons to be cautious. For a start, the scale of the surge in bond prices in 1995 means much of the good news is already reflected in valuations.

Yields on 30-year Treasury bonds fell by nearly two percentage points in 1995, touching 6 per cent by the year end, while in Germany yields on 10-year bonds had dropped to 6.07 per cent by December 27, a fall of more than 1.5 per cent.

"With the US and European central banks virtually moving as one to cut interest rates before year-end, most of the good news for the bond markets has been delivered," says Mr Graham McDevitt, international bond strategist at Paribas Capital Markets.

Mr McDevitt predicts an increase in volatility, arguing that there is a high risk of a correction in the first quarter with bond yields rising by 25 to 50 basis points.

Economic slowdown could also create difficulties by undermining fiscal deficit and debt reduction schemes, in turn putting at risk the achievement of Maastricht criteria for monetary union in some countries.

The impact of the slowdown will be most clearly apparent in France, where a fall in tax revenues could impair the government's efforts to reduce its fiscal deficit from the current level of more than 5 per cent.

The industrial action by French railway workers last month is expected to have reduced growth in the final quarter of 1995 to 0.1 per cent.

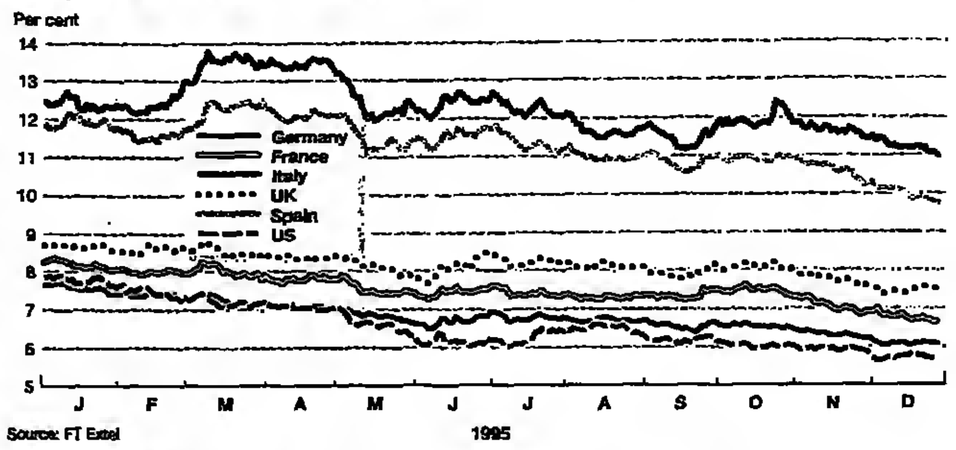
Finally, while leverage has been an element of the current bull market, it is not thought to represent as serious a threat to the markets' stability as in 1994, when highly geared trades built up in 1993 were suddenly unwound, aggravating the extent of the sell-off.

A popular geared play last year, according to analysts at BZW Securities, was to finance purchases of US assets with yen borrowings on the grounds that the "perceived potential for currency loss is small relative to the yield pick-up."

BZW says the leveraging has been concentrated on US more than European bond markets and may well be limited to the short end of the Treasury curve, though "the impact will still have percolated along the curve."

**Richard Lapper**

**10-year benchmark bond yields**




Source: FT Extel

**INTEREST RATES AT A GLANCE**

| | USA | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| Discount | 5.25 | 0.50 | 3.00 | 6.10[1] | 9.00 | 6.50[2] |
| Overnight | 5.94 | 0.38 | 3.88 | 4.62 | 10.43 | 6.50 |
| Three month | 4.98 | 0.50 | 3.70 | 4.81 | 10.12 | 6.56 |
| One year | 5.14 | 0.56 | 3.60 | 4.87 | 10.03 | 6.25 |
| Five year | 5.38 | 1.67 | 4.78 | 5.85 | 10.51 | 6.96 |
| Ten year | 5.59 | 3.06 | 6.02 | 6.66 | 10.84 | 7.43 |

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

**US TREASURY BOND FUTURES** (CBT) $100,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 121–05 | 121–15 | +0–11 | 121–20 | 121–01 | 70,751 | 368,447 |
| Jun | 120–22 | 121–02 | +0–11 | 121–08 | 120–22 | 2,982 | 17,276 |
| Sep | 120–14 | 120–18 | +0–11 | 120–20 | 120–14 | 1,310 | 5,474 |

Open gilt repo trading

# A step away from City tradition

The launch today of the open gilt repo market may be something less than a "second Big Bang", but it does represent a further step away from a City where custom and tradition bave played an important role, towards one governed by the more bomogenised standards of a global financial services industry.

Tbe privileges and arcane idiosyncracies associated with such core City institutions as gilt edge market makers (GEMMs) and stock exchange money brokers (SEMBs) are ebbing away.

Already there is evidence of some of the more marginal GEMMs throwing in the towel, while SEMBs will have to cope with the fact that an open repo market comes in tandem with an open stock-lending market.

Ironically, the advent of the gilt repo market is being entbusiastically welcomed by that otber supposed City anachronism – the discount house. These institutions have, for as long as anyone can remember, served as the intermediaries through which tbe Bank of England channels liquidity to the commercial banks.

Often the butt of ridicule for their quaint practice of having employees don top hats every morning in order to do the rounds of the City's main banks, they have also become increasingly marginalised in recent years as the clearing banks have gained ascendancy in the money markets.

More than 80 per cent of the eligible bills – those which the Bank is prepared to discount in its daily money market operations – are held by the clearers.

As a result, the role of discount bouses over the past 10 years has been little more than to serve as brokers on behalf of the clearing banks.

There is a widespread belief, however, that the Bank of England will start to use the repo as its daily medium of intervention in the money markets (at tbe moment it conducts repo operations every two weeks, but the bulk of its daily operations are done through the bill market).

This will not be immediate – the Bank will first want to see a depth of liquidity in the repo market, both in terms of the number of counterparties, and the volume going througb – but is believed to be inevitable.

For its part, the Bank is playing a very straight bat. It said this week that "it did not have plans to change the form of its money market operations", but that the development of gilt repo trading "could make it sensible to contemplate change later".

The Bank has to tread very carefully, because, in the words of one observer, "any change is a sea change".

A hint that the Bank plans to start using repo alongside eligible bills in its daily operations is sure to be taken as a signal that a move to sole reliance on repo is likely.

Some observers believe the Bank will try to run repo and bill operations in tandem.

There are two main reasons why such a move is considered likely. First, there is widespread belief that intervening via the repo will be a more effective method of managing short-dated interest rates than the current practice of intervening, often three times a day, via the bill market.

Second, it seems most likely to be the modus operandi of a future single European central bank and the UK is unlikely to want to do anything which is at odds with what it migbt have to do in Europe, if it participates in monetary union.

A study last year by Mr Norbert Schnadt for the London Business School found that the money market operations of the Banque de France, Bundesbank and Federal Reserve differed from those of the Bank of England in that they were conducted less frequently, utilised only repurchase transactions, and were spread over a very wide range of financial institutions.

It also found tbat even tbougb the Bank intervened more frequently in the money markets than the other central banks, sterling rates were much more volatile than elsewhere.

Recently, bowever, UK overnight rates have been steadier. Intervention via repo is also unlikely, in itself, to be sufficient to make overnight rates more stable.

Any shift towards daily use of repo will be welcomed by the discount bouses, because by so doing the Bank will increase the number of active participants in the money markets, diminishing the dominant role of the clearers.

The introduction of an open repo market also creates a new trading instrument which puts more emphasis on the idea of secured money – a high priority in the aftermath of the Barings episode.

At the moment, most secured lending and borrowing is done either to the discount market, or via SEMBs, and through them to GEMMs.

Discount houses see an opportunity in this because of their expertise in secured lending.

Mr George Blunden, chief executive of Union plc, says: "Discount bouses have a head start because our job has been secured money markets since the beginning of time." As much as 95 per cent of the discount market is secured.

Mr Ross Jones, chief executive at Gerrard and National plc, adds: "This is the biggest opportunity we have had for years. We see it as a potential new lease of life for tbe secured sterling money market."

A group like Gerrards has the added advantage of having a SEMB within the group, which will be merged with the discount bouse operations. While the pivotal role of SEMBs will be diminished, stock borrowing and lending will continue, alongside repo, so the relationships they have will still count.

A number of tbe largest bolders of gilts – pension funds and institutions – have dealt exclusively with SEMBs, and early indications are that they will be happy to continue doing business this way.

As new entrants garner market share, institutions will have to widen their counterparties beyond the small set of SEMBs they have traditionally dealt with, but loyalty to old relationships looks likely to be the watchword initially.

Discount bouses are also confident that if the Bank of England starts to use the repo as an intervention mechanism, it will want a manageable set of counterparties, dedicated to making markets in all conditions. They believe that their chances of playing this role are good.

Another development which will encourage tbe development of the repo market is the introduction of the European-wide Capital Adequacy Directive, which also takes effect today. CAD encourages a secured money market, because tbe capital requirements for repos are much lower than for unsecured ones.

**Philip Gawith and Richard Lapper**

## NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| US DOLLARS | | | | | | | |
| Step Enterprises(a)ф | 98 | Jan.2000 | 3.375 | 100.00 | - | - | Daiwa Europe |
| SPIC(b)‡ | 120 | Jan.2003 | (b1) | 100.00R | - | - | Chase Investment Bank |
| Nacional Financiera(c)‡ | 50 | Jun.1998 | (c1) | 100.00 | - | - | HSBC Markets |
| D-MARKS | | | | | | | |
| World Bank★ | 150 | Jan.2003 | 5.35 | 100.00 | 5.350 | - | DKB (Deutschland) |
| YEN | | | | | | | |
| SBAB★ | 35bn | Jan.2011 | 3.25 | 100.625 | 3.197 | - | Chemical Inv. Bank |
| Republic of Argentina★ | 14bn | Jun.1997 | 3.25# | 100.00 | 3.250 | - | Yamaichi Intl.(Europe) |
| Sudwestdeutsche LB★ | 10bn | Jan.2016 | (g) | 100.40 | - | - | Yamaichi Intl.(Europe) |
| PESETAS | | | | | | | |
| Intl. Finance Corp.(s) | 12.5bn | Dec.2025 | 9.83 | 102.00 | - | - | Banco Bilbao Vizcaya |
| Nordic Investment Bank(d) | 10bn | Dec.2005 | (d1) | 100.00 | - | - | Argentaria/ Citibank |
| DSL Bank | 10bn | Jan.2008 | 9.92 | 100.00 | 9.920 | - | BSN |
| FRENCH FRANCS | | | | | | | |
| Sofincot | 1bn | Jul.1998 | (a) | 100.04R | - | - | BNP |
| Merrill Lynch & Co.(f)‡ | 300 | Oct.1997 | (f1) | 100.116 | - | - | Merrill Lynch Finance |
| LUXEMBOURG FRANCS | | | | | | | |
| Mortgage Bank of Denmark | 3bn | Feb.2003 | zero | 66.50 | 6.001 | - | BGL/ BIL |
| CZECH KORUNA | | | | | | | |
| World Bank | 2.5bn | Jan.1998 | 10.20 | 101.125 | 9.556 | - | Commerzbank |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. фWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: 310,000 +2 warrants exercisable into Shochiku Co shares at Y1,087. FX 101.80 Y/$. b) Puttable on 19/1/01 at par. b1) 6-mth Libor +25bp. c) Puttable on 19/6/96 at par. c1) 3-mth Libor +2⅝%. d) 3-mth Pibor +12½bp. e) Callable on 29/12/98 at par. d1) 9.22% for 1st 3 yrs and 10% thereafter. f) Fungible with FFr1bn. f1) 3-mth Pibor +15bp. g) 6% in A$ or 5.41% in DM or 5.41% in US$. § Over interpolated yield. q) Long 1st coupon. s) Short 1st coupon. Note. Yields are calculated on ISMA basis.

## BUSINESS TRAVEL

**Carriers cut fares**

British Airways is cutting fares to almost 100 destinations until January 17 as part of its World Offers. The largest saving, £358, is on return flights to Harare, with prices starting at £599. Fares to Nairobi start at £439, down £356. BA fares to Australian cities Darwin and Perth will be £561, saving £161 on the regular lowest fares, with Adelaide, Brisbane, Cairns, Melbourne and Sydney prices cut by £124 to £699.

● USAir has reduced its everyday advance purchase ticket prices for spring and summer travel by up to 44 per cent. The move came a day after a flurry of winter fare cuts of up to 50 per cent initiated by Delta Air Lines, which was swiftly matched by most of its competitors.

● Italian air traffic controllers have signed a new wage agreement, ending their long fight for more money, a union official said. The accord will give controllers a 8 per cent salary rise for the period 1994-95. More talks will be needed to hammer out a settlement for 1996-97.

**Airport on track**

Hong Kong's new US$20bn airport project, including infrastructure and reclamation, is almost half finished, the government said yesterday. At the start of last month the 10 core projects were 48 per cent complete.

Billy Lam, director of the new airport's co-ordination office, said the project, which will replace congested Kai Tak airport, was on schedule and within budget. Seven of the projects are government-funded.

"Our target remains that the first planes will be flying out of Hong Kong's new international airport at Chek Lap Kok in April 1998 and I am confident that the total cost will be within our budget of $20.3bn," Lam said.

**Cash in the sky**

A high-tech business party owned by a former Israel Air Force commander has miniaturised the technology needed to recognise banknotes, and introduced a product it hopes will turn aircraft into flying banks.

Inflight Financial Services is negotiating with Israel's El Al airline and US-based carriers such as United Airlines and Delta to install its Aero-Cash automatic currency exchange machine on regular flights.

The company has developed a way of reducing bulky automatic exchange machines to a lightweight, suitcase-sized package that easily operates on aircraft, it said. Company president Mony Lichman said the machine, which accepts US dollars and seven European currencies for any other money, "will become a fixture on airplanes and change the way travellers bank".

United Airlines said it was considering using Aero-Cash on its flights but had not yet finalised terms. The machine accepts credit cards and will charge no commission, Lichman said.

Inflight Financial Services is a multinational company partly owned and managed by Israelis. Some of the development work on Aero-Cash was done in Belgium.

**Airport threatened**

Russian airport police intervened last week to prevent a group of businessmen from taking control of the VIP lounge at Moscow's main international airport.

Anatoly Koryakin, director of the Sheremetyevo-2 airport, said the businessmen had appeared in the lounge with a bailiff and police in what seemed to be a property dispute. Some were armed with Kalashnikov automatic rifles.

"Thanks to the intervention of airport security officers, order was restored and work on receiving official delegations continued," Koryakin said.

**Likely weather in the leading business centres**

| | Tue | Wed | Thur | Fri | Sat |
|---|---|---|---|---|---|
| Tokyo | 9 | 9 | 8 | 10 | 11 |
| Hong Kong | 20 | 19 | 20 | 21 | 21 |
| London | 7 | 8 | 6 | 10 | 9 |
| Frankfurt | -1 | -3 | -2 | -2 | -1 |
| New York | 4 | 2 | -2 | -2 | -4 |
| L Angeles | 24 | 22 | 22 | 23 | 22 |
| Milan | 3 | 4 | 2 | -1 | 0 |
| Paris | 6 | 6 | 5 | 9 | 10 |
| Zurich | 2 | 0 | 1 | 1 | 0 |

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Ian Schrager's hotels are for those who can afford chintz but want something different, says Alice Rawsthorn

# Hotelier's Starck choice

On paper, Ian Schrager looks like the sort of self-indulgent businessman who is rather *too* self-indulgent for his own good.

He did, after all, fly 80 palm trees from Washington to the Delano hotel he opened in Miami last summer, because they were more attractive than the local crop. And, after taking a closer look at the sand on nearby Miami Beach, he shipped in a ton-and-a-half of a superior variety.

Yet Schrager is not just another architecture junkie who allows aesthetic excess to cloud his business judgment. He can rattle off the profit margins on almost every aspect of the Delano and of his three New York hotels. He has harnessed his love of design to turn them into the hotels of choice for what he calls "the generation that wants something different" - artists, actors, designers and musicians who can afford four-star or five-star establishments but find them rather boring.

The three New York hotels - the Royalton, Morgans and the Paramount - are almost always fully booked. The Delano in Miami is so popular that last month's *American Vogue* prefaced an article on other Miami hotels by saying: "If you can't get into the Delano . . . .". Schrager is now renovating the Mondrian Hotel in Los Angeles and searching for a site in London.

The progress of his business career has been erratic, to say the least. He made his name in the late 1970s with Studio 54, a New York nightclub that he ran with his university roommate, the late Steve Rubell. Studio 54 captured the hedonistic spirit of the late 1970s. But in 1980 Schrager and Rubell were sentenced to 3½ years in prison for tax evasion.

After their release they opened a nightclub, the Palladium, and diversified into hotels. Neither had any experience of the business, but they knew what sort of place to open. "There was no point in opening another luxury hotel," says Schrager. "That end of the business was well served by Claridges in London, the Bel Air in LA and the Carlyle in New York. They serve room service course by course at Claridges. You can't beat that."

They sensed a need for a new type of luxury hotel for the sort of people who used to go to Studio 54 - people who wanted, and were willing to pay for, the comfort and service they got in conventional luxury hotels, but would prefer a less formal setting more in tune with their taste than the chintzy interior of Claridges.

They started by renovating Morgans, a discreet mid-town hotel with 154 rooms built in the late 1920s. Schrager commissioned Andrée Putman, the French designer, to refurbish Morgans in her understatedly elegant modernist style, but they were more adventurous in their choice of designer for the next hotel, the Royalton, which they entrusted to the flamboyant Frenchman, Philippe Starck. Schrager worked with Starck again on the Paramount, an equally extrovert but less expensive hotel that opened in 1990.

Each of the New York hotels has its own character. The Royalton is the most audacious. The Paramount is for people who love the Royalton but cannot quite afford it. And Morgans is the most discreet. Schrager ensures there is a difference of at least $50 (£32) between the room rates: $250 for the Royalton, $200 for Morgans and $100 for the Paramount. They all have an average occupancy rate of more than 90 per cent, against the US industry average of 71 per cent.

"Coming from the nightclub business was great training for running an hotel," says Schrager. "You're selling a commodity product. A nightclub sells the same drink and plays the same music as the competition. The only thing that differentiates them is production values. It's the same with hotels."

Production values are Schrager's forte. Starck, with whom he collaborated on the Delano's all-white interior and *Alice In Wonderland* garden, is prodigiously talented but notoriously difficult to work with. Schrager's solution is to set up


a project management team of architects, art directors and buyers to implement Starck's ideas and bring them in on budget.

"After doing three hotels with Philippe, we know what to expect," says Schrager. "We don't panic when we get these weird faxes from him." This system has produced some of Starck's best work. He is one of the world's most sought-after designers who receives three or four requests a month to design hotels, but says "no to all of them, except Ian".

All Schrager's hotels *look* expensive. The fittings are specially commissioned and the renovation budgets seem high - $28m for the Delano, $35m for the Royalton, $60m for the 610-room Paramount. But Schrager is careful to buy existing hotels which will be easy to convert. "We replace everything, even the plumbing, but leave the rooms intact. You can get into trouble by banging on walls." He says it would cost "much more" to kit out his hotels in conventional chintz than in a sumptuous Starck design.

His latest project is the Mondrian in Los Angeles. It was purpose-built as a 1960s apartment hotel and is now being redesigned by Starck, who says he wants it to be "very, very white with one or two symbols of colour" to emphasise the "dreaminess of LA". Schrager has asked artist James Turrell to create a "three-dimensional living art piece" for the foyer "so it will be like walking into an artwork."

As his hotel chain expands, Schrager has cut costs by pooling areas such as purchasing and marketing. He is careful to concentrate on room rental, and licenses out services such as bars, restaurants and gyms. Brian McNally, who has turned the Royalton's "44" into one of Manhattan's most chic restaurants, runs the Delano's Blue Room with pop star Madonna as a co-investor. Schrager even licenses the newsstands. "When we ran the newsstand at the Paramount, it lost $1,000 a month. We've given it to a guy who knows the business and it makes $4,500 a month."

The Mondrian is scheduled for completion in October and Schrager will then expand outside the US. He has hunted for sites in London without success, although Granada's hostile £3.3bn bid for Forte could create some opportunities.

"My customers travel on a certain axis," says Schrager. "New York, Miami and Los Angeles are on it, so are London and Paris. You couldn't open hotels like mine just anywhere because there wouldn't be enough people to fill it. And I'd put as much effort into a place with 17 rooms as I would into one with 700."

# Bangkok gets tough on motorists

More than 100 people were arrested on the first day of a campaign by Bangkok police to force motorists to heed traffic regulations as part of an attempt to unsnarl the city's gridlock.

In Bangkok, known for the world's worst traffic jams, drivers routinely flout the rules. Violators often slip the police small bribes and are swiftly on their way.

Car sales in 1995 are expected to have topped 500,000, making Thailand the largest car market in south-east Asia. But only 8 per cent of Bangkok's land surface is covered by roads, compared to 25 per cent in New York and Paris. Short trips in the city can take hours.

Bangkok's traffic problem is affecting the city's development. Some foreign businesses have decided to locate elsewhere, and tourists spend less time and money in the capital, citing their aversion to the traffic. The campaign is part of a plan by Thaksin Shinawatra, a billionaire businessman and deputy prime minister, who was elected last July on a pledge that he would solve Bangkok's traffic problems in six months or resign. Thaksin's deadline - January 26 - is approaching with no noticeable improvement in traffic conditions.

However, the World Bank recently announced it will provide a $150m (£97m) loan to Thailand to help alleviate its traffic problems. Maurice Le-Blanc of the bank said: "The government of Thailand has taken a leading role in the region in addressing environmental and road safety issues in an aggressive manner, which to date have proved very successful. This will further those efforts."

● For those who can make it through the traffic, Bangkok's first Cyberpub has just opened, providing a focus for the party-loving after-work crowd. For $12 an hour, customers can sit at one of 10 glass-topped tables equipped with a Compaq Presario.

Getting into the spirit of things, an opening night trio of women clicked on to a virtual dating service which bills itself as "Your link to true love". As the picture and vital statistics of a young hunk from New York appeared on the screen, one adjusted her glasses and took a closer look.

The Cyberpub is in the same ownership as the local upmarket Dusit Thani hotel chain.

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA 28 DEC (Dec 29 / Sch)

BELGIUM/LUXEMBOURG (Dec 29 / Frs.)

CZECH REP (Dec 15 / Koruna)

DENMARK (Dec 29 / Kr)

FINLAND (Dec 28 / Mkk)

FRANCE (Dec 29 / Frs)

GERMANY (Dec 29 / Dm.)

GREECE (Dec 29 / Drachma)

ITALY (Dec 29 / Lira)

NETHERLANDS (Dec 28 / Fls.)

NORWAY (Dec 29 / Kroner)

POLAND (Dec 29 / Zloty)

PORTUGAL (Dec 29 / Escudo)

SPAIN (Dec 29 / Pts.)

SWEDEN (Dec 29 / Kronor)

SWITZERLAND (Dec 28 / Frs.)

TURKEY (Dec 29 / Tk Lira)



## PACIFIC

JAPAN (Dec 29 / Yen)

HONG KONG (Dec 29 / H.K.$)

INDONESIA (Dec 29 / Rupiah)

MALAYSIA (Dec 29 / MYR)

NEW ZEALAND (Dec 29 / NZ $)

SINGAPORE (Dec 29 / S$)

AUSTRALIA (Dec 29 / Aust$)

SOUTH KOREA (Dec 27 / Won)

TAIWAN (Dec 29 / TW $)

THAILAND (Dec 29 / Baht)

## NORTH AMERICA

CANADA

TORONTO (Dec 29 / Can $)
4 pm close

MONTREAL (Dec 29 / Can $)
4 pm close

## AFRICA

SOUTH AFRICA (Dec 29 / Rand)

## INDICES

## INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

## US INDICES

| Dow Jones | Dec 29 | Dec 28 | Dec 27 | 1995 High | 1995 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 5117.12 | 5095.80 | 5105.92 | 5216.47 (13/12) | 3832.08 (30/1) | 5216.47 (13/12/95) | 41.22 (2/7/32) |
| Home Bonds | 105.33 | 105.34 | 104.99 | 105.34 (11/12) | 93.63 (3/1) | 106.77 (15/10/93) | 54.99 (1/10/81) |
| Transport | 1981.00 | 1953.49 | 1959.47 | 2082.11 (5/12) | 1473.10 (3/1) | 2082.11 (5/12/95) | 12.32 (8/7/32) |
| Utilities | 225.40 | 224.57 | 223.87 | 225.40 (29/12) | 183.08 (3/1) | 256.46 (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 5144.58 (5132.86) Low 5083.85 (5082.21) (Theoretical†)
Day's high 5117.12 (5106.26) Low 5087.46 (5088.55) (Actual†)

| Standard and Poors | | | | | | | |
|---|---|---|---|---|---|---|---|
| Composite‡ | 615.93 | 614.12 | 614.53 | 621.69 (13/12) | 459.11 (3/1) | 621.69 (13/12/95) | 4.40 (1/6/32) |
| Industrials¶ | 721.15 | 718.93 | 719.57 | 731.86 (13/12) | 545.28 (3/1) | 731.86 (13/12/95) | 3.52 (21/6/32) |
| Financial | 61.97 | 61.81 | 61.95 | 63.06 (6/12) | 41.54 (3/1) | 63.06 (6/12/95) | 0.64 (1/10/74) |
| NYSE Comp. | 329.51 | 328.35 | 328.13 | 331.17 (13/12) | 250.73 (3/1) | 331.17 (13/12/95) | 4.46 (25/4/42) |
| Amex Mkt Val | 548.23 | 544.52 | 544.70 | 553.56 (12/9) | 433.12 (6/1) | 553.56 (12/9/95) | 29.31 (9/12/72) |
| NASDAQ Cmp | 1052.15 | 1042.22 | 1048.13 | 1069.79 (4/12) | 743.58 (3/1) | 1069.79 (4/12/95) | 54.87 (31/10/72) |

■ RATIOS

| | Dec 22 | Dec 15 | Dec 8 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.31 | 2.27 | 2.27 | 2.78 |

| | Dec 27 | Dec 20 | Dec 13 | Year ago |
|---|---|---|---|---|
| S & P Ind. Div. yield | 1.89 | 2.02 | 1.95 | 2.47 |
| S & P Ind. P/E ratio | 16.75 | 16.49 | 10.06 | 15.40 |

■ NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Micron | 9,831,800 | 39⅝ | −⅝ |
| Kmart | 7,403,200 | 7¼ | +¼ |
| IBM | 3,468,600 | 91⅜ | +1⅝ |
| WalMart | 3,420,300 | 22⅜ | −⅛ |
| Silicon Grph | 3,357,900 | 27½ | −⅛ |
| PNC Bank | 3,311,000 | 32¼ | +⅛ |
| Exxon | 2,744,100 | 80⅛ | −2¼ |
| Cypress Semi | 2,637,700 | 12¾ | −⅞ |
| Compaq | 2,376,300 | 48 | +1½ |
| Gen Motors | 2,244,900 | 52⅞ | +2 |

■ TRADING ACTIVITY

● Volume (million)

| | Dec 29 | Dec 28 | Dec 27 |
|---|---|---|---|
| New York SE | 31.843 | 298.471 | 252.310 |
| Amex | 319.705 | 18.231 | 17.264 |
| NASDAQ | 89 | 460.431 | 383.488 |

| NYSE | | | |
|---|---|---|---|
| Issues Traded | 3,108 | 3,094 | 3,085 |
| Rises | 1,552 | 1,251 | 1,330 |
| Falls | 834 | 1,080 | 998 |
| Unchanged | 722 | 763 | 757 |
| New Highs | 224 | 185 | 145 |
| New Lows | 21 | 30 | 28 |

■ S&P 500

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 617.50 | 618.45 | +0.70 | 619.50 | 615.20 | 33,001 | 191,419 |
| Jun | 624.20 | 624.05 | +0.80 | 624.80 | 622.35 | 319 | 6,343 |

■ Nikkei 225

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 19960.0 | 19950.0 | −40.0 | 19980.0 | 19860.0 | 7,520 | 137,074 |
| Jun | 19940.0 | 19890.0 | −50.0 | 19940.0 | 19890.0 | 19 | 18,190 |

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. † The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

■ TOKYO – MOST ACTIVE STOCKS: Friday, December 29, 1995

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Toshiba | 8.9m | 909 | +11 |
| Nip Steel | 4.3m | 354 | +6 |
| Mitsui Osk | 4.0m | 331 | +10 |
| Hanwa | 3.7m | 426 | −10 |
| Sumitomo Hvy | 3.6m | 371 | +21 |
| Sanyo Elec | 3.1m | 585 | +20 |
| Minolta Co | 3.0m | 603 | +8 |
| Taiyo Toyo | 2.9m | 575 | −33 |
| Matsushita | 2.4m | 1680 | +50 |
| Sakura Bank | 2.2m | 1310 | +30 |

FT FREE ANNUAL REPORTS SERVICE

# CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Dec 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | Day's Mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 15.8251 | -0.0432 | 287 - 414 | 15.8700 | 15.5584 | 15.5916 | 3.3 | 15.5478 | 2.2 | - | - | 106.6 |
| Belgium | (BFr) | 45.6916 | -0.0916 | 531 - 300 | 45.7320 | 45.4260 | 45.5866 | 2.6 | 45.4066 | 2.5 | 44.7086 | 2.2 | 109.1 |
| Denmark | (DKr) | 8.6042 | -0.0195 | 005 - 079 | 8.6241 | 8.5683 | 8.5926 | 1.6 | 8.5762 | 1.3 | 8.5168 | 1.0 | 109.6 |
| Finland | (FM) | 6.7414 | -0.0449 | 351 - 477 | 6.7750 | 6.7160 | 6.737 | 0.6 | 6.7280 | 0.7 | - | - | 85.5 |
| France | (FFr) | 7.5926 | -0.0272 | 900 - 155 | 7.6216 | 7.5592 | 7.5876 | 0.8 | 7.5796 | 0.7 | 7.5301 | 0.8 | 111.1 |
| Germany | (DM) | 2.2222 | -0.0061 | 213 - 230 | 2.2290 | 2.2107 | 2.2176 | 2.5 | 2.2085 | 2.5 | 2.1681 | 2.4 | 111.8 |
| Greece | (Dr) | 367.302 | -1.611 | 166 - 439 | 368.754 | 365.912 | - | - | - | - | - | - | 68.4 |
| Ireland | (I£) | 0.9687 | +0.0004 | 681 - 693 | 0.9693 | 0.9670 | 0.9677 | 1.2 | 0.9666 | 0.9 | 0.9631 | 0.6 | 97.8 |
| Italy | (L) | 2463.04 | -1.67 | 148 - 460 | 2465.39 | 2445.98 | 2471.49 | -4.1 | 2488.14 | -4.1 | 2560.99 | -4.0 | 71.0 |
| Luxembourg | (LFr) | 45.6916 | -0.0919 | 531 - 300 | 45.7320 | 45.4260 | 45.5866 | 2.6 | 45.4066 | 2.5 | 44.7086 | 2.2 | 109.1 |
| Netherlands | (Fl) | 2.4888 | -0.0075 | 880 - 896 | 2.5003 | 2.4753 | 2.4829 | 2.8 | 2.4726 | 2.6 | 2.4286 | 2.4 | 109.2 |
| Norway | (NKr) | 9.8091 | -0.0255 | 017 - 165 | 9.8683 | 9.7560 | 9.799 | 1.2 | 9.7775 | 1.3 | 9.6963 | 1.1 | 96.3 |
| Portugal | (Es) | 231.838 | [illegible] | [illegible] | 232.579 | 230.730 | 232.361 | -2.7 | 233.265 | -2.5 | - | - | 95.4 |
| Spain | (Pta) | 188.355 | -0.093 | 301 - 510 | 188.626 | 187.496 | 188.84 | -3.1 | 189.785 | -3.1 | 194.01 | -3.0 | 82.7 |
| Sweden | (SKr) | 10.2894 | -0.0636 | 809 - 979 | 10.3483 | 10.2543 | 10.2913 | -0.2 | 10.295 | -0.2 | 10.3102 | -0.2 | 87.0 |
| Switzerland | (SFr) | 1.7665 | -0.0042 | 655 - 674 | 1.7874 | 1.7764 | 1.76 | 4.4 | 1.757 | 4.4 | 1.7112 | 4.2 | 118.3 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 83.1 |
| Ecu | - | 1.2123 | +0.0005 | 116 - 129 | 1.2129 | 1.2026 | 1.2112 | 1.1 | 1.209 | 1.1 | 1.201 | 0.9 | - |
| SDR† | - | 1.045350 | | | | | | | | | | | |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5523 | -0.0037 | 520 - 526 | 1.5584 | 1.5441 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.5090 | -0.0038 | 084 - 095 | 1.5098 | 1.5030 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.1175 | -0.0001 | 167 - 182 | 2.1182 | 2.1061 | 2.116 | 0.6 | 2.1149 | 0.5 | 2.1106 | 0.3 | 83.9 |
| Mexico | (New Peso) | 11.9624 | +0.0185 | 449 - 799 | 11.9798 | 11.9382 | - | - | - | - | - | - | - |
| USA | ($) | 1.5526 | -0.0035 | 523 - 528 | 1.5532 | 1.5438 | 1.5515 | 0.9 | 1.5494 | 0.8 | 1.5394 | 0.9 | 94.0 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.0872 | -0.001 | 861 - 882 | 2.0882 | 2.0737 | 2.0887 | -0.9 | 2.0926 | -1.0 | 2.109 | -1.0 | 85.9 |
| Hong Kong | (HK$) | 12.0046 | -0.0267 | 018 - 073 | 12.0089 | 11.9377 | 11.9975 | 0.7 | 11.9864 | 0.5 | 11.9628 | 0.3 | - |
| India | (Rs) | 54.5954 | -0.0583 | 633 - 275 | 54.6340 | 54.3300 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.8800 | -0.0226 | 943 - 726 | 4.8744 | 4.8445 | - | - | - | - | - | - | - |
| Japan | (Y) | 160.153 | +0.475 | 073 - 233 | 160.233 | 158.760 | 159.318 | 6.3 | 157.613 | 5.6 | 151.473 | 5.4 | 139.6 |
| Malaysia | (M$) | 3.9418 | -0.0117 | 405 - 430 | 3.9433 | 3.9209 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.3749 | -0.0034 | 732 - 765 | 2.3765 | 2.3627 | 2.3778 | -1.5 | 2.3848 | -1.7 | 2.409 | -1.4 | 101.5 |
| Philippines | (Peso) | 40.7234 | -0.0647 | 856 - 610 | 40.7610 | 40.5858 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.8229 | -0.0137 | 218 - 241 | 5.8258 | 5.7903 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.1981 | -0.0028 | 950 - 972 | 2.1977 | 2.1822 | - | - | - | - | - | - | - |
| South Africa | (R) | 5.6599 | -0.0168 | 574 - 623 | 5.6623 | 5.6302 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1204.39 | +0.28 | 412 - 466 | 1204.82 | 1197.38 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 42.3645 | -0.1011 | 561 - 728 | 42.3606 | 42.1272 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 39.1086 | -0.0803 | 858 - 306 | 39.1306 | 38.9040 | - | - | - | - | - | - | - |

† Rates for Dec 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Dec 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | J.P. Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.0706 | -0.0041 | 681 - 730 | 10.1285 | 10.0670 | 10.0681 | 1.8 | 10.0291 | 1.5 | 9.8556 | 1.4 | 104.4 |
| Belgium | (BFr) | 29.4400 | +0.01 | 100 - 500 | 29.5350 | 29.4000 | 29.378 | 2.1 | 29.29 | 1.8 | 28.965 | 1.5 | 105.5 |
| Denmark | (DKr) | 5.5420 | +0.0008 | 405 - 435 | 5.5676 | 5.5379 | 5.5382 | 0.8 | 5.532 | 0.7 | 5.5495 | -0.1 | 108.7 |
| Finland | (FM) | 4.3422 | -0.0104 | 398 - 435 | 4.3784 | 4.3385 | 4.3372 | 1.4 | 4.3285 | 1.3 | 4.2897 | 1.0 | 85.3 |
| France | (FFr) | 4.8905 | -0.0006 | 895 - 915 | 4.9150 | 4.8866 | 4.884 | -0.9 | 4.9015 | -0.9 | 4.913 | -0.5 | 110.2 |
| Germany | (DM) | 1.4313 | -0.0006 | 310 - 316 | 1.4395 | 1.4310 | 1.4291 | 1.9 | 1.4245 | 1.9 | 1.4053 | 1.8 | 110.5 |
| Greece | (Dr) | 236.580 | -0.45 | 530 - 630 | 238.290 | 236.520 | 238.305 | -8.7 | 241.205 | -8.2 | 254.06 | -7.9 | 68.5 |
| Ireland | (I£) | 1.6028 | -0.0043 | 020 - 035 | 1.6040 | 1.5945 | 1.6033 | -0.3 | 1.6037 | -0.2 | 1.5994 | 0.2 | - |
| Italy | (L) | 1586.45 | +2.65 | 570 - 720 | 1588.10 | 1581.00 | 1593.3 | -5.2 | 1605.35 | -4.8 | 1663.45 | -4.9 | 70.4 |
| Luxembourg | (LFr) | 29.4400 | +0.01 | 100 - 500 | 29.5350 | 29.4000 | 29.378 | 2.1 | 29.29 | 1.8 | 28.965 | 1.5 | 105.5 |
| Netherlands | (Fl) | 1.6031 | -0.0002 | 026 - 035 | 1.6126 | 1.6020 | 1.5998 | 2.4 | 1.5949 | 2.0 | 1.5756 | 1.7 | 108.4 |
| Norway | (NKr) | 6.3181 | -0.0015 | 143 - 218 | 6.3720 | 6.3140 | 6.3169 | 0.4 | 6.3169 | 0.7 | 6.2806 | 0.4 | 97.3 |
| Portugal | (Es) | 149.350 | -0.135 | 340 - 440 | 150.260 | 149.350 | 149.785 | -3.0 | 150.655 | -3.1 | 154.1 | -3.2 | 95.1 |
| Spain | (Pta) | 121.320 | -0.026 | 240 - 400 | 121.700 | 121.240 | 121.715 | -3.9 | 122.45 | -3.7 | 125.94 | -3.8 | 81.5 |
| Sweden | (SKr) | 6.6274 | -0.0255 | 230 - 318 | 6.6871 | 6.6173 | 6.6444 | -3.1 | 6.6738 | -2.8 | 6.8114 | -2.8 | 86.9 |
| Switzerland | (SFr) | 1.1507 | - | 502 - 511 | 1.1547 | 1.1492 | 1.1471 | 3.8 | 1.1404 | 3.6 | 1.112 | 3.4 | 115.2 |
| UK | (£) | 1.5526 | -0.0035 | 523 - 528 | 1.5532 | 1.5438 | 1.5515 | 0.8 | 1.5494 | 0.8 | 1.5394 | 0.9 | 83.2 |
| Ecu | - | 1.2807 | -0.0035 | 802 - 812 | 1.2850 | 1.2773 | 1.281 | -0.3 | 1.2813 | -0.2 | 1.282 | -0.1 | - |
| SDR† | - | 0.67234 | | | | | | | | | | | |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9998 | - | 998 - 999 | 1.0002 | 0.9998 | - | - | - | - | - | - | - |
| Brazil | (R$) | 0.9720 | -0.0002 | 717 - 722 | 0.9722 | 0.9710 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3638 | +0.0031 | 635 - 641 | 1.3653 | 1.3608 | 1.3689 | 0.0 | 1.3645 | -0.1 | 1.3693 | -0.4 | 83.2 |
| Mexico | (New Peso) | 7.7050 | +0.03 | 950 - 150 | 7.7200 | 7.6900 | 7.7073 | -0.4 | 7.7104 | -0.3 | 7.7183 | -0.1 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 94.2 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.3443 | +0.0026 | 439 - 448 | 1.3462 | 1.3432 | 1.3463 | -1.8 | 1.3468 | -1.6 | 1.3695 | -1.8 | 86.7 |
| Hong Kong | (HK$) | 7.7322 | +0.0001 | 317 - 327 | 7.7327 | 7.7315 | 7.7339 | -0.1 | 7.7347 | -0.1 | 7.7617 | -0.4 | - |
| India | (Rs) | 35.1650 | -0.045 | 500 - 800 | 35.1900 | 35.1400 | 35.515 | -5.1 | 35.62 | -5.2 | 37.09 | -5.5 | - |
| Israel | (Shk) | 3.1381 | -0.0072 | 326 - 363 | 3.1490 | 3.1264 | - | - | - | - | - | - | - |
| Japan | (Y) | 103.165 | +0.35 | 120 - 190 | 103.270 | 102.640 | 102.64 | 6.0 | 101.765 | 5.3 | 98.23 | 4.8 | 141.2 |
| Malaysia | (M$) | 2.5390 | -0.0015 | 385 - 395 | 2.5425 | 2.5380 | 2.5399 | -0.4 | 2.5451 | -1.0 | 2.5595 | -1.2 | - |
| New Zealand | (NZ$) | 1.5296 | +0.0014 | 288 - 305 | 1.5305 | 1.5263 | 1.5328 | -2.4 | 1.5384 | -2.3 | 1.565 | -2.2 | - |
| Philippines | (Peso) | 26.2300 | +0.02 | 100 - 500 | 26.2500 | 26.2100 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7505 | - | 503 - 507 | 3.7507 | 3.7502 | 3.751 | -0.1 | 3.7517 | -0.1 | 3.756 | -0.1 | - |
| Singapore | (S$) | 1.4145 | +0.0015 | 140 - 150 | 1.4150 | 1.4132 | 1.411 | 3.0 | 1.405 | 2.7 | 1.3795 | 2.5 | - |
| South Africa | (R) | 3.6455 | -0.0023 | 445 - 465 | 3.6515 | 3.6445 | 3.6735 | -9.2 | 3.7246 | -8.7 | 3.9665 | -8.8 | - |
| South Korea | (Won) | 775.750 | +2 | 700 - 800 | 775.900 | 774.000 | 778.75 | -4.6 | 782.25 | -3.4 | 800.75 | -3.2 | - |
| Taiwan | (T$) | 27.2870 | -0.001 | 860 - 880 | 27.2950 | 27.2850 | 27.307 | -0.9 | 27.347 | -0.9 | - | - | - |
| Thailand | (Bt) | 25.1900 | +0.0075 | 800 - 000 | 25.2050 | 25.1750 | 25.2898 | -4.7 | 25.4925 | -4.8 | 26.375 | -4.7 | - |

† SDR rate per $ for Dec 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 28: Base average 1990=100

## WORLD INTEREST RATES

### MONEY RATES

| December 29 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| France | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 5.85 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 5.85 |
| Germany | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 3.00 | 3.75 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 3.00 | 3.75 |
| Ireland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.25 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.25 |
| Italy | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 10.50 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 10.67 |
| Netherlands | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 3.00 | 3.40 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 3.50 | 3.40 |
| Switzerland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 1.50 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 2.00 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.25 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.25 | - |
| Japan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| ■ S LIBOR FT London Interbank Fixing | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| US Dollar CDs | - | 5.13 | 5.25 | 5.25 | 5.20 | - | - | - |
| week ago | - | 5.13 | 5.25 | 5.25 | 5.20 | - | - | - |
| ECU Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| SDR Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |

§ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

### EURO CURRENCY INTEREST RATES

| Dec 29 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Danish Krone | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| D-Mark | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dutch Guilder | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| French Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portuguese Esc. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spanish Peseta | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Swiss Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Can. Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| US Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italian Lira | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Yen | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Asian $Sing | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

### ■ THREE MONTH EUROROLLAR (IMM) $1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 94.67 | 94.68 | +0.02 | 94.69 | 94.63 | 56,258 | 445,782 |
| Jun | 94.93 | 94.95 | +0.01 | 94.95 | 94.87 | 45,911 | 388,585 |
| Sep | 94.98 | 94.99 | +0.01 | 95.01 | 94.93 | 22,430 | 248,445 |

### ■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 95.16 | 95.13 | - | 95.16 | 95.10 | 1,202 | 7,371 |
| Jun | 95.37 | 95.36 | - | 95.38 | 95.34 | 350 | 4,241 |
| Sep | - | 95.41 | - | - | - | 4 | 133 |

All Open Interest figs. are for previous day

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Dec 29 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.83 | 16.62 | 4.863 | 2.121 | 5391 | 5.448 | 21.47 | 507.6 | 412.3 | 22.52 | 3.911 | 2.189 | 4.638 | 3.399 | 350.8 | 2.653 |
| Denmark | (DKr) | 53.10 | 10 | 8.825 | 2.583 | 1.126 | 2863 | 2.893 | 11.40 | 269.5 | 219.0 | 11.96 | 2.077 | 1.162 | 2.462 | 1.805 | 186.2 | 1.409 |
| France | (FFr) | 60.17 | 11.33 | 10 | 2.926 | 1.276 | 3244 | 3.278 | 12.92 | 305.4 | 248.1 | 13.55 | 2.353 | 1.317 | 2.789 | 2.045 | 211.0 | 1.596 |
| Germany | (DM) | 20.56 | 3.872 | 3.417 | 1 | 0.436 | 1108 | 1.120 | 4.414 | 104.4 | 84.79 | 4.631 | 0.804 | 0.450 | 0.953 | 0.699 | 72.16 | 0.545 |
| Ireland | (I£) | 47.15 | 8.879 | 7.836 | 2.293 | 1 | 2542 | 2.569 | 10.12 | 239.3 | 194.4 | 10.62 | 1.844 | 1.032 | 2.186 | 1.603 | 165.3 | 1.251 |
| Italy | (L) | 1.855 | 0.349 | 0.308 | 0.090 | 0.039 | 100. | 0.101 | 0.398 | 9.415 | 7.649 | 0.418 | 0.073 | 0.041 | 0.086 | 0.063 | 6.504 | 0.049 |
| Netherlands | (Fl) | 18.36 | 3.457 | 3.051 | 0.893 | 0.389 | 989.6 | 1 | 3.941 | 93.17 | 75.69 | 4.134 | 0.718 | 0.402 | 0.851 | 0.624 | 64.36 | 0.487 |
| Norway | (NKr) | 46.58 | 8.772 | 7.741 | 2.265 | 0.988 | 2511 | 2.537 | 10 | 236.4 | 192.1 | 10.49 | 1.822 | 1.019 | 2.159 | 1.583 | 163.3 | 1.236 |
| Portugal | (Es) | 18.70 | 3.710 | 3.274 | 0.958 | 0.418 | 1062 | 1.073 | 4.230 | 100. | 81.24 | 4.437 | 0.771 | 0.431 | 0.913 | 0.670 | 69.08 | 0.523 |
| Spain | (Pta) | 24.26 | 4.567 | 4.030 | 1.179 | 0.514 | 1307 | 1.321 | 5.206 | 123.1 | 100. | 5.462 | 0.949 | 0.531 | 1.124 | 0.824 | 85.03 | 0.643 |
| Sweden | (SKr) | 44.40 | 8.362 | 7.379 | 2.158 | 0.942 | 2394 | 2.419 | 9.533 | 225.4 | 183.1 | 10 | 1.737 | 0.972 | 2.058 | 1.509 | 155.7 | 1.178 |
| Switzerland | (SFr) | 25.57 | 4.815 | 4.249 | 1.243 | 0.542 | 1378 | 1.393 | 5.489 | 129.8 | 105.4 | 5.758 | 1 | 0.560 | 1.185 | 0.869 | 89.65 | 0.678 |
| UK | (£) | 45.69 | 8.604 | 7.593 | 2.222 | 0.969 | 2463 | 2.489 | 9.809 | 231.9 | 188.4 | 10.29 | 1.787 | 1 | 2.118 | 1.553 | 160.2 | 1.212 |
| Canada | (C$) | 21.57 | 4.062 | 3.585 | 1.049 | 0.458 | 1163 | 1.175 | 4.631 | 109.5 | 88.95 | 4.858 | 0.844 | 0.472 | 1 | 0.733 | 75.64 | 0.572 |
| US | ($) | 29.42 | 5.540 | 4.889 | 1.431 | 0.624 | 1586 | 1.603 | 6.318 | 149.3 | 121.3 | 6.626 | 1.151 | 0.644 | 1.364 | 1 | 103.2 | 0.780 |
| Japan | (Y) | 28.52 | 5.371 | 4.740 | 1.387 | 0.605 | 1537 | 1.554 | 6.123 | 144.8 | 117.6 | 6.423 | 1.115 | 0.624 | 1.322 | 0.969 | 100. | 0.757 |
| Ecu | | 37.70 | 7.099 | 6.265 | 1.833 | 0.800 | 2032 | 2.054 | 8.093 | 191.3 | 155.4 | 8.490 | 1.474 | 0.825 | 1.745 | 1.281 | 132.2 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

### ■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 0.6974 | 0.6988 | +0.0009 | 0.7025 | 0.6966 | 14,065 | 48,151 |
| Jun | 0.7035 | 0.7016 | +0.0009 | 0.7057 | 0.7019 | 78 | 2,868 |
| Sep | - | 0.7046 | +0.0009 | - | - | 5 | 1,089 |

### ■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 0.8720 | 0.8731 | +0.0007 | 0.8769 | 0.8713 | 7,478 | 33,638 |
| Jun | 0.8827 | 0.8809 | +0.0007 | 0.8827 | 0.8807 | 34 | 961 |
| Sep | 0.8900 | 0.8882 | +0.0007 | 0.8900 | 0.8900 | 2 | 87 |

### ■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 0.9851 | 0.9773 | -0.0072 | 0.9851 | 0.9771 | 9,606 | 64,041 |
| Jun | 0.9945 | 0.9880 | -0.0075 | 0.9945 | 0.9888 | 114 | 2,024 |
| Sep | 1.0005 | 1.0001 | -0.0081 | 1.0005 | 1.0005 | 129 | 293 |

### ■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 1.5444 | 1.5514 | +0.0072 | 1.5518 | 1.5406 | 12,068 | 31,186 |
| Jun | 1.5450 | 1.5482 | +0.0068 | 1.5470 | 1.5450 | 3 | 22 |
| Sep | - | 1.5444 | +0.006 | 1.5430 | - | 3 | 6 |

### ■ Pound in New York

| Dec 29 | —Close— | —Prev. close— |
|---|---|---|
| £ spot | 1.5516 | 1.5475 |
| 1 mth | 1.5499 | 1.5464 |
| 3 mth | 1.5476 | 1.5442 |
| 1 yr | 1.5375 | 1.5343 |

**FT GUIDE to WORLD CURRENCIES**
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

### ■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Jan | CALLS Feb | CALLS Mar | PUTS Jan | PUTS Feb | PUTS Mar |
|---|---|---|---|---|---|---|
| 1.520 | 3.05 | 3.54 | 4.13 | 0.08 | 0.69 | 1.40 |
| 1.530 | 2.20 | 2.82 | 3.48 | 0.16 | 0.98 | 1.75 |
| 1.540 | 1.41 | 2.23 | 2.90 | 0.31 | 1.31 | 2.17 |
| 1.550 | 0.79 | 1.70 | 2.43 | 0.69 | 1.71 | 2.59 |
| 1.560 | 0.38 | 1.21 | 1.98 | 1.28 | 2.27 | 3.15 |
| 1.570 | 0.16 | 0.86 | 1.59 | 2.04 | 2.86 | 3.57 |

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

## UK INTEREST RATES

### LONDON MONEY RATES

| Dec 29 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 6⅛ - 2 | 6½ - 6 | 6½ - 6⅜ | 6⁷⁄₁₆ - 6⁵⁄₁₆ | 6⁵⁄₁₆ - 6³⁄₁₆ | 6⅛ - 6¼ |
| Sterling CDs | - | - | 6½ - 6⁷⁄₁₆ | 6½ - 6⁷⁄₁₆ | 6⁹⁄₃₂ - 6³⁄₁₆ | 6¼ - 6⅛ |
| Treasury Bills | - | - | 6⅜ - 6¼ | 6¼ - 6⅛ | - | - |
| Bank Bills | - | - | 6¹³⁄₃₂ - 6¹¹⁄₃₂ | 6⅜ - 6¼ | 6³⁄₁₆ - 6⅛ | - |
| Local authority deps. | 6¾ - 6⅞ | 6¹¹⁄₁₆ - 6⁷⁄₁₆ | 6⁷⁄₁₆ - 6⁷⁄₁₆ | 6⅝ - 6⁷⁄₁₆ | 6⅜ - 6¼ | 6⅜ - 6⁵⁄₁₆ |
| Discount Market deps | 6½ - 6 | 6⅞ - 6½ | - | - | - | - |

UK clearing bank base lending rate 6½ per cent from December 13, 1995

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5½ | 5 | 5 | 4½ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.2159pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 29, 1995. Agreed rate for period Jan 24, 1995 to Feb 25, 1996, Schemes II & III 7.82pc. Reference rate for period Dec 1, 1995 to Dec 29, 1995, Schemes IV & V 6.552pc. Finance House Base Rate 7pc from January 1, 1995

### BANK OF ENGLAND TREASURY BILL TENDER

| | Dec 29 | Dec 22 | | Dec 29 | Dec 22 |
|---|---|---|---|---|---|
| Bills on offer | £1500m | £1500m | Top accepted rate | 6.2371% | 6.2170% |
| Total of applications | £2860m | £3393m | Ave. rate of discount | 6.2159% | 6.1728% |
| Total allocated | £1500m | £1500m | Average yield | 6.3137% | 6.2692% |
| Min. accepted bid | £98.445 | £98.450 | Offer at next tender | £1500m | £1500m |
| Allotment at min. level | 20% | 74% | Min. accept. bid 182 days | - | - |

## BANK RETURN

| BANKING DEPARTMENT | Wednesday December 27, 1995 | Increase or decrease for week |
|---|---|---|
| **Liabilities** | £ | £ |
| Capital | 14,553,000 | |
| Public deposits | 1,280,904,133 | +121,413,197 |
| Bankers deposits | 2,131,362,928 | +130,103,319 |
| Reserve and other accounts | 3,150,198,310 | -790,785,717 |
| | 6,577,018,371 | -539,268,601 |
| **Assets** | | |
| Government securities | 1,191,197,581 | +100,635,000 |
| Advance and other accounts | 4,343,260,009 | -1,156,481,835 |
| Premise, equipment and other secs | 1,039,159,784 | +521,021,915 |
| Notes | 3,281,982 | -4,515,951 |
| Coin | 119,035 | +22,270 |
| | 6,577,018,371 | -539,268,601 |
| **ISSUE DEPARTMENT** | | |
| **Liabilities** | | |
| Notes in circulation | 21,716,718,018 | +454,515,951 |
| Notes in Banking Department | 3,281,982 | -4,515,951 |
| | 21,720,000,000 | +450,000,000 |
| **Assets** | | |
| Other Government securities | 15,509,603,538 | +957,183,025 |
| Other Securities | 6,210,396,462 | -507,183,025 |
| | 21,720,000,000 | +450,000,000 |

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 6.50 | Duncan Lawrie | 6.50 | Royal Bk of Scotland | 6.50 |
| Allied Trust Bank | 6.50 | Exeter Bank Limited | 7.50 | ●Singer & Friedlander | 6.75 |
| AIB Bank | 6.75 | Financial & Gen Bank | 7.50 | ●Smith & Williamson Secs | 6.50 |
| ●Henry Ansbacher | 6.50 | ●Robert Fleming & Co | 6.50 | TSB | 6.75 |
| Bank of Baroda | 6.50 | Girobank | 6.75 | United Bank of Kuwait | 6.75 |
| Banco Bilbao Vizcaya | 6.50 | ●Guinness Mahon | 6.50 | Unity Trust Bank Plc | 6.50 |
| Bank of Cyprus | 6.50 | Habib Bank AG Zurich | 6.50 | Western Trust | 6.75 |
| Bank of Ireland | 6.75 | ●Hambros Bank | 6.50 | Whiteaway Laidlaw | 6.50 |
| Bank of India | 6.75 | Heritable & Gen Inv Bk | 6.50 | Yorkshire Bank | 6.50 |
| Bank of Scotland | 6.50 | ●Hill Samuel | 6.75 | | |
| Barclays Bank | 6.75 | C. Hoare & Co | 6.50 | ● Members of London Investment Banking Association | |
| Brit Bk of Mid East | 6.50 | Hongkong & Shanghai | 6.50 | * In administration | |
| ●Brown Shipley & Co Ltd | 6.50 | Julian Hodge Bank | 6.50 | | |
| Citibank NA | 6.50 | ●Leopold Joseph & Sons | 6.50 | | |
| Clydesdale Bank | 6.50 | Lloyds Bank | 6.50 | | |
| The Co-operative Bank | 6.75 | Meghraj Bank Ltd | 6.50 | | |
| Coutts & Co | 6.50 | Midland Bank | 6.50 | | |
| Credit Lyonnais | 6.50 | * Mount Credit Corp | 6.50 | | |
| Cyprus Popular Bank | 6.50 | NatWestminster | 6.50 | | |
| | | ●Rea Brothers | 6.75 | | |

## FT GOLD MINES INDEX

| | Dec 29 | % chg since 30/12/94 | Mkt Cap $bn | % of Gold Mines | Gross div yield % | P/E ratio | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (34) | 1913.48 | -3.2 | 48.36 | 100.00 | 1.77 | - | 2083.86 | 1607.91 |
| ■ Regional Indices | | | | | | | | |
| Africa (16) | 2502.20 | -21.8 | 13.51 | 27.93 | 3.71 | 26.29 | 3191.21 | 2272.74 |
| Australasia (6) | 2368.82 | -3.5 | 6.00 | 12.41 | 2.09 | 37.22 | 2607.57 | 1788.20 |
| North America (12) | 1664.27 | +6.5 | 28.85 | 59.66 | 0.80 | 49.98 | 1831.00 | 1348.18 |

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## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1995 High | 1995 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | 24.0 | 29 | 23 | Cash Converters | 24 | | Mv2.6 | 5.1 | 13.6 | 18.0 |
| - | F.P. | 22.4 | 125 | 116 | Century Inns | 117 | | - | - | - | - |
| - | F.P. | 12.2 | 510 | 500 | †Com de Part Fin | 510 | | - | - | - | - |
| 150 | F.P. | 72.1 | 160 | 149½ | Cortworth | 151 | +1 | Rv5.8 | 2.1 | 4.8 | 12.4 |
| - | F.P. | 54.6 | 112 | 108 | Cox Insurance | 111 | | - | - | - | - |
| - | F.P. | 14.0 | 60 | 62 | †Crown Products | 53 | | - | - | - | - |
| - | F.P. | 14.1 | 90 | 75 | †Dmatek | 75 | | - | - | - | - |
| 100 | F.P. | 27.3 | 103 | 98 | Finsbury Tech | 103 | | - | - | - | - |
| 200 | F.P. | 21.8 | 203 | 198 | Gasthouse | 200 | +1 | Lv4.4 | 3.5 | 2.8 | 13.1 |
| - | F.P. | 13.5 | 28 | 23 | †Marx & O'Weiss | 23 | -2 | - | - | - | - |
| 204 | F.P. | 3,373.5 | 214½ | 198 | National Grid | 199½ | | Wv11.23 | 2.3 | 7.0 | 9.0 |
| - | F.P. | 6.59 | 78 | 75 | †Nthn Petim | 75 | | - | - | - | - |
| - | F.P. | 0.13 | 6 | 6 | †Do Wrnts | 6 | | - | - | - | - |
| - | F.P. | 92.7 | 392 | 345 | †Pet City | 392 | | - | - | - | - |
| - | F.P. | 25.0 | 152 | 124 | †Polymasc Pharms | 125 | -2 | - | - | - | - |
| - | F.P. | 1.07 | 105 | 100 | †Revelation P'olity | 100 | | - | - | - | - |
| - | F.P. | 3.15 | 3½ | 3 | †Rushmere Wynne | 3½ | | - | - | - | - |
| 133 | F.P. | 46.9 | 137 | 133 | Unicorn Intl | 137 | +3 | Wv5.5 | 2.2 | 5.0 | 11.4 |
| - | F.P. | 173.2 | 251 | 213 | Victrex | 250 | +5 | Lv3.6 | 2.4 | 1.8 | 29.2 |
| - | F.P. | 3.90 | 135 | 125 | †Viewinn | 130 | | - | - | - | - |
| - | F.P. | 47.8 | 68 | 55 | Wilmington | 67 | | v- | - | - | 31.5 |

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1995 High | 1995 Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 1r10p | Nil | 5/1 | 3pm | 1½pm | Dunloe House | 1½pm | |
| 34 | Nil | 2/1 | 8½pm | 4½pm | Melrose | 5¼pm | -¼ |
| 150 | Nil | 19/1 | 23pm | 22pm | Westbury | 23pm | |

per premium.

## UK GILTS PRICES

| | Notes | Price £ | Wk % +/- | Amnt £m | Interest due | Last xd | City line |
|---|---|---|---|---|---|---|---|
| Shorts (Lives up to Five Years) | | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Five to Fifteen Years | | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Index-Linked | | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Other Fixed Interest | | | | | | | |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

## STOCK INDICES

| | Dec 29 | Dec 28 | Dec 27 | Dec 22 | Dec 21 | High | Low | High | Low |
|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Mid 250 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Mid 250 ex IT | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A 350 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE SmallCap | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE SmallCap ex IT | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A All-Share | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A Fledgling | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Eurotrack 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Eurotrack 200 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Ordinary | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Govt Secs | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Fixed Interest | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Gold Mines | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |



## CONTRACTS & TENDERS

GOVERNO DO ESTADO PARANÁ — COPEL

**SALTO CAXIAS HYDROELETRIC POWER STATION**
**IGUAÇU RIVER**
**INTERNACIONAL COMPETITION C-810**
**GAS INSULATED SUBSTATION**
**CALL FOR BIDS**

COMPANHIA PARANAENSE DE ENERGIA - COPEL, informs that an international competition is open for design, manufacture, shop tests, transportation and delivery on Jobsite, erection and commissioning supervision of one gas insulated substation for the Salto Caxias Hydroelectric Power Station, located on the border of Capitão Leônidas Marques and Nova Prata do Iguaçu counties, in the State of Paraná, Brazil.

This International Competition, of the lowest price type, is open to individual companies.

The costs related to the Supply object of this International Competition will be covered by COPEL's own funds.

The Instructions to Bidders and the Contract Documents will be available to interested companies from December 20, 1995, until the day before the documents delivery date, against payment in Brazilian currency of R$ 150,00 (a hundred and fifty Reais), at the following addresses:

Superintendência de Obras de Geração
Rua Voluntários da Pátria, 233 - 5º andar - sala 504
80020-000 - Curitiba - PR, Brazil
Phone (55-41) 322-1212 - Ext. 6541
Fax (55-41) 331-3266
or
Escritório COPEL / São Paulo
Alameda Santos, 1800 - 14º andar - conj. 14B
01418-200 - São Paulo - SP, Brazil
Phone (55-11) 288-1431

At the time of acquisition of the Instructions to Bidders and the Contract Documents, the company shall present a letter containing name and department of the person for contact, his/her complete mailing address, phone and fax.

The delivery of the Qualification Documents and the Price Bids will take place on March 05, 1996, at 2:00 P.M., at COPEL's Superintendência de Obras de Geração meeting room, in Curitiba, 233 Voluntários da Pátria Street, ground floor.

The competition will be ruled by Law n. 8666, dated June 21, 1993, and by other conditions established in the Instructions to Bidders and in the Contract Documents.

COMPANHIA PARANAENSE DE ENERGIA

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

### BERMUDA (REGULATED)(**)

### GUERNSEY (SIB RECOGNISED)

### GUERNSEY (REGULATED)(**)

### IRELAND (SIB RECOGNISED)

### IRELAND (REGULATED)(**)

### ISLE OF MAN (SIB RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (SIB RECOGNISED)

### JERSEY (REGULATED)(**)

### LUXEMBOURG (SIB RECOGNISED)

### LUXEMBOURG (REGULATED)(**)

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# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Chase Manhattan Vista Funds

Merrill Lynch Asset Management - Contd.

Abtrust International Ltd

Royal Life International

Cameo Investment Management Ltd

Global Asset Management - Contd.

Magellan Emerging Mkts Mngt (Jersey) Ltd

Republic Funds

[illegible]

## OTHER OFFSHORE FUNDS

[illegible]

## OFFSHORE INSURANCES

[illegible]

# LONDON SHARE SERVICE

## BANKS, MERCHANT

[illegible]

## BANKS, RETAIL

[illegible]

## BREWERIES

[illegible]

## BUILDING & CONSTRUCTION

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## CHEMICALS

[illegible]

## CHEMICALS - Cont.

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## EXTRACTIVE INDUSTRIES - Cont.

[illegible]

## FOOD PRODUCERS

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HOUSEHOLD GOODS

[illegible]

## INSURANCE

[illegible]

## INSURANCE - Cont.

[illegible]

## INVESTMENT TRUSTS

[illegible]

## INVESTMENT TRUSTS - Cont.

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

# LONDON SHARE SERVICE

## INV TRUSTS SPLIT CAPITAL - Cont.

## OTHER INVESTMENT TRUSTS

## INVESTMENT COMPANIES

## LEISURE & HOTELS

## LEISURE & HOTELS - Cont.

## LIFE ASSURANCE

## MEDIA

## OIL EXPLORATION & PRODUCTION

## OIL, INTEGRATED

## OTHER FINANCIAL

## OTHER SERVICES & BUSINESSES

## PAPER, PACKAGING & PRINTING

## PHARMACEUTICALS



## PHARMACEUTICALS - Cont.

| | Notes | Price | Wk% ch'nge | Div net | Div cov | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Proteus Intl. | | 120 | 15.4 | - | - | - | - | 2981 |
| Ransom (Wm) | | 58 | 5.4 | 2.09 | 1.9 | Apr Oct | 21.6 | 3778 |
| Schering DM | | 843½ | -6 | Q31% | - | May | 6'93 | - |
| Scotia | | 540 | -18 | - | - | - | - | 2786 |
| SmKl Beecham A | | 710xd | 3.3 | 13.5 | 2.6 | JaApJyOc | 20.11 | 4636 |
| Equity Units | | 702xd | 3.2 | Q26.4c | 2.6 | JaApJyOc | 20.11 | 4940 |
| Zeneca | | 1246 | 1.3 | 29.8 | 1.7 | Nov May | 18.9 | 2966 |

## PROPERTY

## PROPERTY - Cont.

## RETAILERS, FOOD

## RETAILERS, GENERAL

## RETAILERS, GENERAL - Cont.

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| DFS Furniture | | 387 | 2.6 | 8.3 | 0.9 | Jan Nov | 30.10 | 3088 |
| Dixons | | 446 | 3.5 | 7.25 | 2.3 | Mar Oct | 24.7 | 2300 |
| (Net) Cv Cr Pf | | 128xd | 3.0 | 9.0 | - | Jan Jul | 16.12 | 2356 |
| Era | | 8½ | - | - | - | - | 11'89 | 3481 |
| Essex Furn | | 107xd | 1.9 | 4.3 | ф | Apr Jan | 27.11 | 5313 |
| Etam | | 192xd | - | 6.25 | 0.2 | Jan Jul | 4.12 | 3499 |
| Fine Art Devs | | 419xd | -.7 | 18.5 | 2.1 | Jan Jul | 22.12 | 2383 |
| Fired Earth | | 66 | - | 1.0 | 2.8 | Nov | 0.10 | 2207 |
| Flying Flowers | | 135 | -1.5 | Q2.68 | 3.2 | Oct Apr | 2.10 | 2780 |
| French Connect | | 785 | - | - | - | - | 5'92 | 2823 |
| Frost | | 195xd | - | 8.8 | 1.7 | Jul Jan | 27.11 | 1250 |

## SPIRITS, WINES & CIDERS

## SUPPORT SERVICES

## SUPPORT SERVICES - Cont.

## TELECOMMUNICATIONS

## TEXTILES & APPAREL

## TOBACCO

## TRANSPORT

## WATER

## AIM

## AIM - Cont.

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

| | Notes | Price | Wk% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | £31½ | — | Q478c | 2.4 | Oct Apr | 3'93 | - |
| Barlow | ‡ | £9½xd | -.7 | Q84c | ф | Jan Jul | 11.12 | - |
| Gold Flds Prop R | | 154 | — | Q60c | 2.1 | Feb Sep | 1'94 | - |
| NK Props | | 92 | — | Q87.1c | - | Feb Sep | 10'93 | - |
| SASOL | ♥ | 523 | -.8 | Q78c | - | Oct | 8'93 | - |
| SA Brews | | £23½xd | -1.6 | Q200c | 2.1 | Jun Dec | 27.11 | - |
| Standard Bank | □ | £30½ | — | Q264c | 3.1 | Sep Mar | - | - |
| Tiger Oats | | 1150xd | — | Q186c | ф | Jan Aug | 11.12 | - |
| Tongaat-Hulett | † | 1071xd | — | Q110c | 2.7 | Jun Jan | 4.12 | - |

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution, unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. k Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. 0 Earnings based on preliminary figures. s Dividend includes a special payment. t Indicated dividend: cover relates to previous dividend. e Forecast, or estimated annualised dividend rate; cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. a Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. $ Assumed dividend after pending scrip and/or rights issue. 8 Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. 0 Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xp ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

## FT Share Service

The following changes have been made to the FT Share Information Service: Additions: L.Gardner (Eng), Benfield & Rea, Brit Emp Sec & Gen Ln 2013 (InTr), East Surrey N/V (Wtr) & Jasmin, Trocadero & Zergo (AIM). Deletions: Lloyds Bank (BkRe), Aerostructures Hamble (Eng) & Atkins (Text).

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## FT Company Focus

Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

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Reports published by ShareFinder Ltd.

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Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

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4 pm close December 29

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1995/96 High | Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chg'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 21 7/8 | 12 1/8 | AAR | 0.48 | 2.2 | 26 | 110 | u22 | 21 5/8 | 22 | +1/8 |
| 46 1/4 | 35 | AMP | 0.92 | 2.4 | 10 | 2332 | 38 7/8 | 38 1/8 | 38 3/8 | -1/8 |
| 80 1/4 | 53 5/8 | AMR | | | 17 | 3411 | 74 5/8 | 73 1/2 | 74 1/4 | +1 |
| 47 7/8 | 36 3/8 | ASA | 1.71 | 4.6 | 24 | 1007 | 37 1/8 | 36 5/8 | 37 1/8 | -1/4 |
| 44 1/4 | 30 3/4 | AbbotL | 0.84 | 2.0 | 20 | 8813 | 43 | 41 1/8 | 41 3/4 | +1/2 |
| 16 7/8 | 76 | AbitIbi Pr | 0.40 | 3.6 | 7 | 1881 | 14 1/2 | 14 1/8 | 14 1/2 | +3/8 |
| 28 1/2 | 21 | ABM Ind | 0.70 | 2.6 | 15 | 177 | 27 7/8 | 27 1/8 | 27 1/8 | -1/8 |
| 17 1/2 | 13 1/8 | Acptncelo | | | 10 | 1271 | 14 7/8 | 14 1/2 | 14 7/8 | -1/8 |
| 40 | 21 7/8 | ACE Ltd x | 0.56 | 1.4 | 0 | 461 | 39 3/4 | 39 | 39 3/4 | +3/4 |
| 9 7/8 | 8 1/8 | ACM Gvt In x | 0.48 | 5.3 | 6 | 536 | 9 1/4 | 9 1/8 | 9 1/8 | -1/8 |
| 7 3/4 | 6 1/8 | ACM GvOpp | 0.60 | 8.8 | | 199 | 7 3/8 | 7 1/4 | 7 3/8 | +1/8 |
| 7 1/2 | 5 3/4 | ACM Gvt Sp | 0.75 | 11.5 | | 439 | 6 5/8 | 6 1/2 | 6 1/2 | -1/8 |
| 8 3/4 | 7 1/4 | ACM Gvt Sc x | 0.24 | 2.9 | | 1565 | 8 3/8 | 8 1/4 | 8 1/4 | -1/8 |
| 9 1/2 | 7 5/8 | ACM Man | 0.90 | 10.6 | | 490 | 0 | 8 7/8 | 0 | +1/8 |
| 28 1/4 | 10 1/4 | AcmeCir | 0.40 | 2.0 | 33 | 340 | 18 3/4 | 17 7/8 | 18 3/4 | +3/4 |
| 38 3/8 | 7 3/8 | Acme Elect | | | 76 | 637 | 9 3/8 | 8 5/8 | 9 1/8 | +1/2 |
| 34 1/2 | 23 3/4 | Acordia | 0.72 | 2.4 | 18 | 5 | 29 7/8 | 29 5/8 | 29 7/8 | +1/8 |
| 16 3/4 | 10 1/8 | Acuson | | | 38 | 605 | 12 5/8 | 12 1/4 | 12 1/8 | |
| 19 5/8 | 15 5/8 | Adams Expr | 0.40 | 2.6 | 0 | 482 | 18 5/8 | 18 3/8 | 18 1/2 | |
| 36 7/8 | 27 8 | Advdito | | | 5 | 10577 | 16 5/8 | 16 1/8 | 16 1/2 | -1/8 |
| 9 3/4 | 6 | Advest Grp | 0.16 | 1.9 | 11 | 87 | 8 3/4 | 8 1/2 | 8 1/2 | -1/8 |
| 27 1/2 | 16 1/2 | Advo Inc x | 0.10 | 6.8 | 19 | 289 | 26 1/8 | 25 3/4 | 26 | +1/8 |
| 44 3/4 | 24.80 | Aegon | 1.28 | 2.9 | 16 | 44 | u44 3/4 | 44 | 44 | -1/8 |
| 5 3/8 | 3 3/8 | Aerifx | | | 6 | 320 | 4 1/8 | 4 3/4 | 4 1/4 | -1/8 |
| 70 3/4 | 46 3/4 | AetnaL | 2.76 | 4.0 | 33 | 1902 | 70 1/4 | 68 7/8 | 55 1/4 | -1 |
| 44 1/4 | 31 7/8 | Aflac | 0.52 | 1.2 | 12 | 5296 | 43 5/8 | 43 1/4 | 43 1/8 | +1/8 |
| 28 3/8 | 18 | Ahmson | 0.40 | 8.6 | 8 | 2284 | 26 1/2 | 26 1/4 | 26 1/2 | |
| 58 1/2 | 43 7/8 | AirPrC x | 1.04 | 2.0 | 16 | 1423 | 53 3/4 | 52 5/8 | 52 3/4 | -1/8 |
| 28 1/2 | 18 3/8 | Airbne Frt | 0.30 | 1.1 | 25 | 397 | 26 5/8 | 26 1/4 | 26 5/8 | +1/8 |
| 01 5/8 | 19 5/8 | Airgas Inc | | | 29 | 508 | u33 3/4 | 31 1/8 | 33 3/4 | +1 3/4 |
| 76 | 13 3/8 | Airlease x | 2.00 | 11.6 | 12 | 15 | 17 1/2 | 17 1/4 | 17 1/4 | -1/8 |
| 36 5/8 | 24 | AirTch | | | 113 | 4424 | 28 1/4 | 27 5/8 | 28 1/4 | +5/8 |
| 21 3/8 | 13 1/2 | Alaska Air | 0.20 | 1.2 | 17 | 2325 | 16 1/2 | 16 1/8 | 16 1/4 | |

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# NYSE COMPOSITE PRICES

4 pm close December 29

Continued from previous page

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 25¾ | 18½ | Yankee Egy x | 1.28 | 5.0 | 21 | 121 | d25½ | 25¼ | 25¼ | +¼ |
| 48¾ | 34⅛ | York Int | 0.24 | 0.5 | 17 | 614 | 47 | 46½ | 47 | |
| 4½ | 2¼ | Zapata | 0.14 | 4.5 | 22 | 691 | 3⅛ | 3 | 3⅛ | |
| 12⅛ | 6⅛ | ZenithEl | | | 4 | 2340 | 7 | 6¾ | 6⅞ | |
| 24⅞ | 19⅜ | Zenith Nat | 1.00 | 4.7 | 30 | 412 | 21¾ | 21⅜ | 21⅜ | -⅜ |
| 6⅞ | 6⅛ | Zenix Inc x | 0.72 | 10.9 | | 254 | 6⅝ | 6½ | 6⅝ | |
| 17 | 12⅜ | Zero | 0.44 | 2.5 | 18 | 290 | u17⅞ | 16⅞ | 17⅜ | +⅞ |
| 26 | 16⅞ | Zurn Ind | 0.40 | 1.9 | 19 | 422 | 21¼ | 20¾ | 21¼ | |
| 11½ | 10¼ | Zweig Fund | 1.12 | 10.0 | | 465 | 11¼ | 11⅛ | 11¼ | |
| 8 | 7⅞ | Zweig Total | 0.84 | 9.7 | | 575 | 8⅝ | 8½ | 8⅝ | +⅛ |

*Price data supplied by Telekurs*

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial. d-new yearly low. P/E price-earnings ratio. s/a-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. 4 Dealings suspended.

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# AMEX COMPOSITE PRICES

4 pm close December 29

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Compex | 8.70 | 14 | 493 | 41⅝ | 38 | 41⅞ | +3⅛ | |
| Con Mkt | 0.14 | 30 | 4 | 19 | 19 | 19 | -⅛ | |
| Cohn FdA | 0.01 | | 145 | 4¼ | 4½ | 4½ | | |
| Giant FdA | 0.74 | 18 | 479 | 31⅛ | 31¼ | 31½ | -⅛ | |
| Glatfltr | 0.76 | 19 | 322 | 17¼ | 17 | 17⅛ | | |
| Goldfield | | 8 | 636 | ¾ | ⅝ | ¾ | | |
| Gulf Cda | 0.34 | 5 | 173 | 4⅞ | 4⅝ | 4⅞ | | |
| HanDir | | 13 | 3142 | 1⅞ | 1⅝ | 1⅞ | | |
| Hasbro | 0.32 | 16 | 1882 | 31⅛ | 30⅞ | 31 | +⅛ | |
| Moog A | | 17 | 13 | 17⅝ | 17¼ | 17¼ | | |
| NSR Expl | | 16 | 278 | 1⅛ | 1 | 1⅛ | +⅛ | |
| NatPatDev | | 31 | 201 | 8¾ | 8½ | 8⅝ | +⅛ | |
| NY TmA | 0.56 | 20 | 805 | 29⅝ | 28¾ | 29⅝ | +⅞ | |
| NumacE | | 106 | 90 | 4¼ | 4¼ | 4¼ | | |
| ViacomA | | 132 | 349 | 45¼ | 45⅞ | 45⅞ | -⅞ | |
| ViacomB | | | 6851 | 47⅝ | 47 | 47⅝ | -⅜ | |
| WRET | 1.12 | 18 | 339 | 10⅞ | 10⅝ | 10¾ | | |
| Xytronix | | 2 | 707 | 1¾ | 1¼ | 1⅞ | | |

# NASDAQ NATIONAL MARKET

4 pm close December 29

# FT GUIDE TO THE WEEK

## TUESDAY 2

### UK gilt repo market opens

An open market begins in gilt repos, agreements to sell and then repurchase government bonds. All players in the gilt market will be allowed to borrow and lend stock, rather than only a select group of dealers. The reform should provide greater liquidity, make the market more attractive to foreign investors and reduce government funding costs.

### Cash for Marcos victims

About $50m (£32.4m) of money from Swiss bank accounts belonging to the late Ferdinand Marcos, the former president of the Philippines, is to be transferred to Hawaii. The move is part of a $100m deal in settlement of a $2bn claim by about 10,000 victims – or their relatives – who were tortured, raped or murdered under the Marcos regime. The Filipinos filed a lawsuit against Marcos, who died in exile in Hawaii in 1989, after a popular revolt ousted him from power in 1986.

### AT&T targets Britain

UK phone-users can expect to find themselves the target of aggressive campaigns by AT&T, the largest US telecoms operator.

AT&T says it will not compete on price but on quality of service and innovation. British Telecom, which has so far brushed off challenges from its 150 or so UK rivals, may have more to fear from the US giant.

### Cricket

South Africa meet England in the fifth Test in Cape Town (to Jan 6).

### Holidays

Armenia, Botswana, Canada, Japan, Korea, Liechtenstein, New Zealand, Romania, Russia, Slovenia, Switzerland, Taiwan, Yugoslavia.

## WEDNESDAY 3

### Perry in Sarajevo

William Perry, US defence secretary, arrives in Sarajevo after inspecting US bases in Italy and Hungary. Mr Perry is touring US military operations to implement the Bosnia peace accord. It is the first visit by a high-level US official since the deployment of 20,000 American troops began on December 16.

On Thursday, Mr Perry travels to Ukraine, where he and his Ukrainian and Russian counterparts will participate in the destruction of an intercontinental ballistic missile silo in accordance with the Strategic Arms Reduction Treaty.

### Summing up in Maxwell trial

The Maxwell fraud trial resumes following a Christmas break demanded by the jury. The judge, Lord Justice Phillips, will start his summing up. This is expected to last almost a week, after which the jury will be sent out to consider its verdict. Kevin Maxwell, Ian Maxwell and Larry Trachtenberg deny conspiring to defraud the Maxwell pension funds.

### Holidays

Japan, Taiwan.

England's cricket captain, Mike Atherton, right, and manager, Ray Illingworth, looking to the fifth Test with South Africa. Picture: Lawrence Griffiths

## THURSDAY 4

### UK's first war crimes trial

Committal hearings start in Dorking, near London, for what could be Britain's first war crimes trial. The accused is 84-year-old Szymon Serafinowicz, a former Nazi paramilitary allegedly involved in atrocities during the second world war.

### Japan's stock markets open

The Tokyo Stock Exchange and the country's other stock exchanges open the year's trading session.

### Holidays

Burma, Zaire.

## FRIDAY 5

### Britain's Blair in Far East

Tony Blair, leader of the UK's opposition Labour party, makes a two-day visit to Japan on the first leg of a Far East tour (to Jan 8) to raise his party's international profile and persuade foreign investors of the soundness of Labour economic and financial policies. He will address the Keidanren, the main business federation, and meet government ministers and UK businesses in Japan. He travels on to Singapore.

### German rail fares rise

Fares on Deutsche Bahn, Germany's federal railway system, rise an average 2.8 per cent in western Germany. Train tickets in eastern Germany, which used to be 20 per cent cheaper than in western Germany, will now only be 10 per cent cheaper. The *Schönes Wochenende* ticket, which enables five people to travel unlimited mileage on local trains for an entire weekend, will now cost DM35 ($25), up from DM30.

### Mastering Management

The FT's 20-part series resumes in the UK edition with part nine, following a two-week break. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772, Fax: +44 181 643 7330.

### Holidays

Sri Lanka.

## SATURDAY 6

### Rifkind visits Hong Kong

Malcom Rifkind, UK foreign secretary, arrives in Hong Kong for a three-day visit, his first to the colony as foreign secretary. He will meet local business and political leaders and receive a briefing from the governor, Chris Patten, on the state of Anglo-Chinese relations as they affect the June 1997 hand-over of the colony. Mr Rifkind travels on to Beijing.

### Sailing

The Cape to Rio yacht race starts from Cape Town, South Africa. Although the event is sponsored by Rothmans cigarettes, one of the favourites is the Swedish yacht Nicorette – which is named after a product that helps smokers give up. Nicorette won the 1995 Fastnet race.

## SUNDAY 7

### Portillo in Japan

Michael Portillo, UK defence secretary, in Japan to January 9, will discuss co-operation in United Nations peace-keeping operations. Japan is to send troops for monitoring duties in the Golan Heights at the end of this month. An accord is expected on UK-Japan military exercises and exchanges of officers for training.

### UK rail fares increase

British Rail and London Underground fares rise by varying amounts, according to the route and service provider.

### Rugby union

Cardiff meet Toulouse in the final of the European club rugby competition in Cardiff.

*Compiled by Patrick Stiles and Simon Strong. Fax: (+44) (0)171 873 3194.*

## Measures that came into effect on January 1 1996

### Public procurement deal

Public sector procurement contracts worth several hundred billion dollars a year were opened to international competition when a new World Trade Organisation accord came into force. The 24 signatories include the 15 members of the European Union, the US, Canada, Japan and South Korea.

### US bill on lobbying

A ban on gifts for politicians in Congress came into force. Senators can only accept gifts worth less than $50, with exemptions for home-state products and foodstuffs. House of Representatives members are allowed nothing, although there are 23 exemptions including home-state products, T-shirts and baseball caps. Lobbyists must disclose full details of their activities.

### Italy holds EU presidency

Italy assumed the six-month rotating presidency of the European Union, with the prime task of inaugurating the Inter-Governmental Conferences (IGCs) on the future of the EU. The presidency risks being overshadowed by Italy's political instability and a general election.

Lamberto Dini, prime minister, has argued strongly that he should remain in office to ensure the government is able to concentrate on the presidency.

### Britain takes over WEU

The UK took over the presidency of the Western European Union, a 10-nation defence club. Britain has pledged to take a pragmatic approach to upgrading the WEU, with some improvements in its capacity to anticipate and handle crises but with no question of its compromising Nato's role as Europe's main security institution.

### EU-Turkey customs union

A customs union between the European Union and Turkey came into effect with the removal of remaining trade barriers. This followed a vote in the European parliament in December, in which the move was approved by 343 to 149, with 36 abstentions. There had been concern about Turkey's human rights record.

### EU finance directives

The EU Investment Services Directive, and the accompanying capital adequacy directive, were both implemented. The directives aim to give EU investment firms a "passport" to trade in all member states if they are authorised in one.

The CAD also introduces European Union-wide rules for banks and securities firms to set aside capital to cover risks in securities trading. These are in addition to international rules covering lending risks run by banks.

### Telecoms competition

Cable TV, utility, rail and other "alternative" networks throughout the EU were allowed to use their infrastructure to offer telecom services. Mobile operators were permitted to build their own networks and directly connect to other mobile operators.

### French income tax rise

An additional 0.5 per cent tax charge was introduced on all revenues in an attempt to correct the country's accumulated social security deficit.

### German tax changes

Tax cuts and other changes took effect which should leave Germans nearly DM20bn ($13.8bn) better off this year. Tax-free allowances were brought into line with poverty-level incomes, more than doubling the level of income permitted before tax to just over DM12,000 a year.

Consumers will also benefit from the elimination of the "coal pfennig", which was previously added to electricity bills to help pay for the use of German coal in power stations. However, these savings – amounting to about DM27bn this year – will be offset partly by DM7.5bn higher contributions to pensions and insurance funds.

### Deutsche Telekom tariffs

Germany's state-owned telephone company, due for partial privatisation later this year, introduced changes to bring its tariffs more in line with market demands. Long-distance calls will become cheaper and local calls, which have been kept artificially cheap for decades, more expensive. Business clients can also choose from three different discounts of up to 24 per cent.

### British alcohol tax cut

The tax on fortified wine, such as sherry and port, was reduced by 12p for a typical 75cl bottle.

### UK copyright extended

Copyright on music and literature was extended from 50 to 70 years, implementing an EU directive of October 1993. Although virtually all member (and non-member) states adhered to the 50-year rule, the EU followed Germany, where royalty payments last 70 years. Britain will now be out of step with other English-speaking countries, which will be able to produce cheap editions 20 years earlier.

The change is retrospective, bringing back into copyright works by artists who died between 1925 and 1945, including the composers Edward Elgar and Gustav Holst, and writers Arthur Conan Doyle, creator of Sherlock Holmes, Kenneth Grahame, author of *Wind in the Willows*, Thomas Hardy, Rudyard Kipling, D.H. Lawrence, and Beatrix Potter.

### Income tax back in Cuba

Cuba, which abolished personal taxes as a "capitalist evil" after the 1959 revolution, reintroduced income tax on hard currency earnings. The government also introduced a tax on boats – whatever their size – and road tolls on two highways leading to tourist centres.

## ECONOMIC DIARY

### Other economic news

**Tuesday:** The annual rate of growth of UK's M0 money supply is expected to have risen slightly last month. The US purchasing managers' index is expected to show a further contraction in manufacturing, although less than last month.

**Wednesday:** The UK's purchasing managers' index is expected to record a slowdown in activity in the UK. Most economists think US new home sales were fewer in November than in October.

**Thursday:** The Bundesbank council holds its first meeting of the new year. The Danish unemployment rate is expected to have fallen in November. US factory orders are expected to have recovered in November after falling in the previous month.

**Friday:** Italian consumer price inflation is forecast to have fallen back last month. Figures on Italian gross domestic product are expected to show a rise in the third quarter. US non-farm payroll data should show a smaller rise last month than in November. A raft of German economic figures are released this week. They should show an acceleration in M3 money supply growth and no change in industrial production.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Tues | US | Dec Nat Ass for Purch Mngs | 47.6% | 46.5% |
| Jan 2 | US | Nov construction spending | -0.5% | 2.7% |
| | US | Johnson Redbook w/e Dec 30 | – | -2.4% |
| | US | Dec domestic automobile sales | 7m | 7m |
| | US | Dec domestic light truck sales | 5.9m | 6m |
| | UK | Dec M0* | – | 0.7% |
| | UK | Dec M0** | – | 5.6% |
| | UK | Dec official reserves | – | $-5m |
| Wed | US | Nov new home sales | 675,000 | 673,000 |
| Jan 3 | UK | Dec Chart Instit of Purch Mngs | – | 49.6% |
| | Finland | Nov unemployment | – | 16.5% |
| Thur | US | Nov factory orders | 0.3% | -0.3% |
| Jan 4 | US | Nov factory inventories | – | 0.4% |
| | US | Nov home completions | – | 1.3m |
| | Canada | Dec foreign reserves | C$400m | C$-700m |
| | Canada | Nov indust prod price index* | 0.3% | -0.5% |
| | Canada | Nov raw materials price index | -0.5% | -1.8% |
| | Canada | Dec help wanted index† | 94 | 93 |
| | Denmark | Nov unemployment rate | 9.5% | 9.5% |
| Fri | US | Dec Nonfarm payrolls | 125,000 | 166,000 |
| Jan 5 | US | Dec manufacturing payrolls | 15,000 | -32,000 |
| | US | Dec hourly earnings | 0.3% | -0.1% |
| | US | Dec average workweek | – | 34.5 |
| | US | Dec unemployment rate | 5.6% | 5.6% |
| | Japan | Dec automobile sales** | – | 4.6% |
| | Japan | Dec forex reserves* | – | 0.2% |
| | Japan | Nov Bank Japan Corp Serv Price** | – | -0.9% |
| | Japan | Nov Bank Japan Corp Serv Price* | – | -0.2% |
| | Italy | Dec official consumer price indx* | 0.2% | 0.6% |
| | Italy | Dec official consumer price indx** | 5.8% | 6% |
| | Italy | GDP 3rd qtr*** | 1.8% | -0.4% |
| | Italy | GDP 3rd qtr** | 3.4% | 2.9% |
| | Canada | Dec employment†* | 0.1% | -0.3% |
| | Canada | Dec unemployment rate | 9.4% | 9.4% |
| | Spain | Dec current reserves | – | $167m |
| During the week... | | | | |
| | Germany | Nov final M3 (4th qtr 94) | – | 1.7% |
| | Germany | Oct trade balance | DM7.5bn | 8.2bn |
| | Germany | Oct current account | DM-4.2bn | DM-2.8bn |
| | Germany | Nov industrial production, West* | 1.0% | -2.0% |
| | Germany | Nov manufacturing output, West* | 1.1% | 2.3% |
| | Germany | Nov industrial production, East* | – | -1.0% |
| | Germany | Nov indust prod, pan-Germany* | 0.5% | -1.6% |
| | Germany | Nov capital account | – | DM7.2bn |
| | Germany | Nov orders, West* | 1.0% | -4.5% |
| | N'lands | Dec consumer price indx* | – | 0.0% |
| | N'lands | Dec consumer price indx** | – | 1.6% |
| | Belgium | Dec unemployment rate | – | 14.4% |
| | Spain | Nov trade balance | – | Pta-272bn |

*month on month, **year on year, ***qtr on qtr, † seas adj *Statistics, courtesy MMS International.*



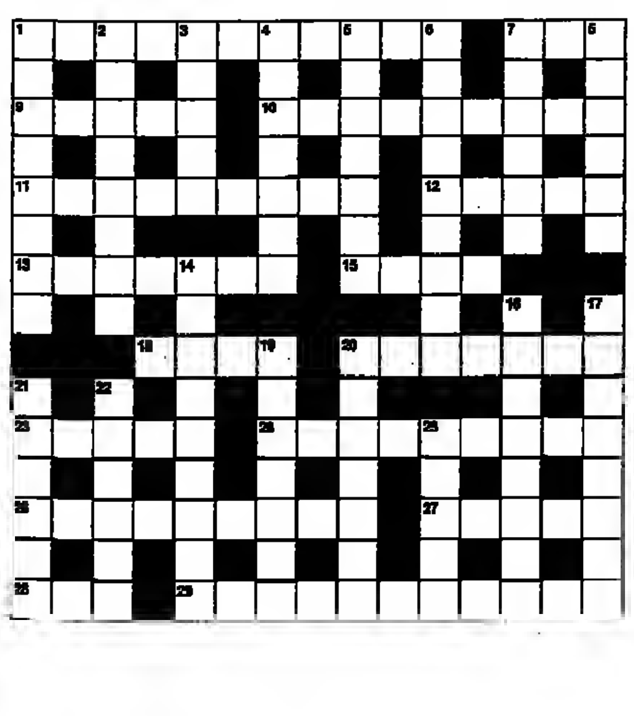
## PRIZE CROSSWORD

No.8,956 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday January 11, marked Prize Crossword 8,956 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 15. Please allow 28 days for delivery of prizes.

Name............................................

Address.........................................



**ACROSS**

1, 7 Understand unusual order to stand aside (3,3,2,3,3)
9 Diva moved piano into flat (5)
10 Distinguished record earned sound backing (9)
11 North Carolina match official goes without testimonial (9)
12 Left behind an Indian fishing basket (5)
13 Just to find Elizabeth I called in (7)
15 Since retiring mum needs girdle (4)
18 Pop back to get edition copied (4)
20 Bankrupt man is noisily active (7)
23 Certainly a very good animal (6)
24 Eve tries converting kind of shirt into napkin (9)
26 Made a live broadcast from the Middle Ages (9)
27 Because the Frenchman is interrupting it's wrong (5)
28, 29 Composer is back, looking angry and fighting with poor Gerald (3,6,5)

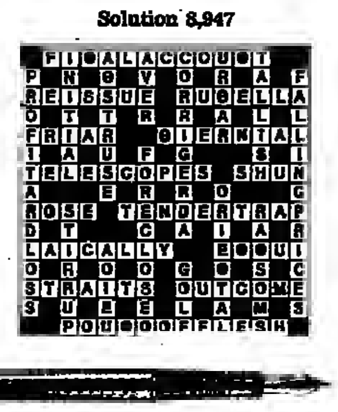
**DOWN**

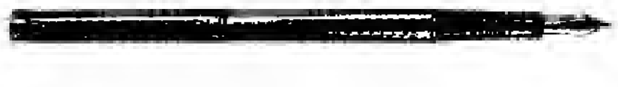
1 Restrained hero embraces SF writer (8)
2, 22 Where a promotion-seeking fireman hopes to end up? (3,2,3,6)
3 Short French article with coloured back (5)
4 Service book to include noise test (7)
5 They examine streets in need of repair (7)
6 Drills and cuts round a ruler (9)
7, 16 Making corn tingle with mixture which warms us up! (6,8)
8 Awfully old, yes, but sings like a mountaineer! (6)
14 Prisoner grabbing a model's charm (9)
16 See 7 down
17 Silly fellow taking hybrid roses to valuer (8)
19 Deny being represented was void (7)
20 Uninvited visitor taking things the wrong way? (7)
21 Ordered system among San Francisco's Moslems (6)
22 See 2
23 Angry about Jack standing, in other words (5)

**Winners 8,947**

J.S Beverly, Epping, Essex
A.E. Allen, Colchester, Essex
Mrs M. Blythe, Wistaston, Cheshire
A.C. Chitnis, Southampton
M.V.M. Durham, High Salvington, W. Sussex
M. Jones, Holmfirth, Huddersfield

**Solution 8,947**





JOTTER PAD

# THIS WEEK

## FT GUIDE TO THE MILLENNIUM COMMISSION

**What, exactly, is this Millennium Commission we keep hearing about?**
The body set up to plan the UK's celebration of the year 2000. Most other countries hope to let off a few fireworks but the UK is taking it very seriously indeed, and spending about £1.5bn.

**Whose idea was it?**
Lord Palumbo, former chairman of the Arts Council, thought the millennium a good excuse to spruce up Britain's national heritage – Stonehenge, the cathedrals, that sort of thing, and perhaps add one or two modern landmarks. Prime minister John Major agreed, and Palumbo's idea has gathered great momentum.

**Organised by a quango of the great and the good, presumably?**
Spot on. Seven worthies, mixed to reflect the aristocracy, business, heritage lobby, science and women, plus a couple of politicians (Virginia Bottomley and Michael Heseltine) who are charged to give to it a vote-gathering twist.

**Where on earth is the money coming from?**
From the UK national lottery, now a little over a year old. Projects to mark the millennium are one of the five worthy causes that are getting great chunks of lottery cash, along with the arts, sport, the heritage industry and charities. To date the Millennium Commission has received almost £300m. But unlike the other good causes, its good fortune ends on December 31 1999. After that, its share of the lottery cake will be divided among the other four.

**Hasn't the commission upset the Welsh?**
Yes, some of them. It was decided to spend about £600m on 12 landmark projects, the 20th century's gift to the future. These are to be spread conscientiously around the UK. Wales was owed one, but the national rugby ground at Cardiff Arms Park, and a proposed opera house for Cardiff Bay, each applied for £50m. Forced to choose between the two Welsh passions, rugby and music, the commission said "No" to music and "Maybe" to rugby. The money will probably be spent refurbishing Cardiff Arms Park.

**So all this millennial cash is not spreading universal happiness?**
No way. There are as many people whingeing as celebrating, especially in the media. The commission is accused of being short on big ideas and long on cautious pragmatism. It has imposed severe restrictions by demanding that applicants should be able to provide half the cost of any project, although some of this can be in land or labour. This makes things hard for imaginative loonies.

**But some good must be coming from it?**
Well, the Tate Gallery is happy. It has £50m for its proposed gallery of modern art on Bankside; Kew Gardens has £21m for a millennium seed bank for plants; and Portsmouth Harbour picked up £40m to convert itself into the world's classiest marina. Scotland has been sweetened with £46m for a "new" Hampden Park. These are among the landmark schemes.

**But I live in Twistelton-on-the-Marsh. I'll never get along to these national monuments.**
The commissioners have also set aside another £600m to engender turn-of-the-millennium optimism at the grass roots. Over 300 groups of local activists have already received a go ahead for good ideas. For example, there will be a new village hall for Ingleton in Derbyshire, thanks to a millennium grant of £150,000; a coastal railway linking the Giant's Causeway and Bushmills in Northern Ireland will please locals and tourists, at a cost of £700,000; and £588,000 has been set aside for salmon ladders in the River Thames.

Strengthening communities and greening the land are buzzwords the commissioners have taken to heart. The £42.5m for Sustrans, which aims to cover the nation with 2,500 miles of cycle paths, just about sums it all up.

**What is going to happen in 2000?**
Good question. No one knows, although Imagination, a group of creative whizz-kids from London, and M2000, financed by Touche Ross and MAI among others, should have a good idea.

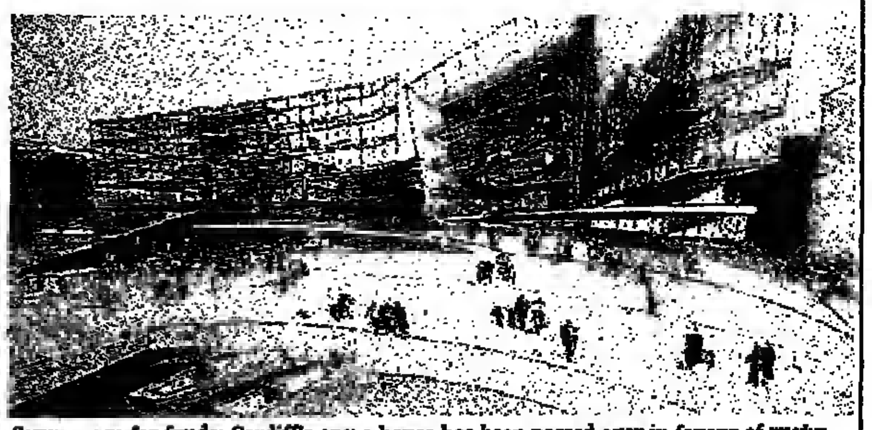
They are the two consortia short-listed to organise the year-long celebration, likely to be a cross between the Festival of Britain and Disney World. The winner will be chosen this month. Four sites have also been short-listed: Greenwich, near London; the National Exhibition Centre near Birmingham; Derby; and Stratford, in London.

Greenwich, the chosen venue of M2000, is favourite, while Imagination has plumped for Birmingham.

It depends whether the commissioners go for a site in London plumb on the international dateline, or Birmingham, near the centre of the UK. With £100m of millennium money to oil the profit-making event, it should be some celebration.

**And on December 31 2000, is it all over?**
The commissioners hope not. There will be the landmark buildings to enjoy, although there is no equivalent to the Crystal Palace or the Eiffel Tower on the horizon to amaze citizens of 2096. There will also be hundreds of village halls, urban parks and small woodlands.

And there will be some bursaries, which are planned to continue *ad infinitum*.


Scrummage for funds: Cardiff's opera house has been passed over in favour of rugby

**What are they. Can I have one?**
No reason why not. The commission is setting up a £100m endowment, which should produce about £5m a year to be distributed in dollops of £2,000 and upwards to citizens who want to improve themselves, and then pass on the improvement to their communities.

More details will be announced this month, but you will probably have to apply to a charity or a voluntary organisation for vetting. Good luck.

**Antony Thorncroft**

● *Millennial architecture: Colin Amery, Page 12*

*Page 12*

# Nerves begin to fray over budget impasse

**DATELINE**

**Washington: Anger at the 'clowns of Congress' is rising, writes Jurek Martin**

It is probable that the US government will still not be fully functioning again this morning – and it is not possible to ignore the rising tide of public and personal disgust with the wilfulness of those on the right wing of the US Congress who have brought about this pretty pass.

Note, from the outset, where the finger of blame is pointed: not at President Bill Clinton, though he may have contributed to the overall budget impasse and is reaping political benefit from it; nor at Senator Bob Dole, though the majority leader might have been more resolute in standing up to his party's vizigoths if he did not need them for his presidential ambitions.

No, responsibility lies squarely with those so convinced of their own rectitude and so insulated from the real world outside their conservative salons and support groups that they cannot understand the damage they are doing – not only to those affected by the longest, if partial, closure of the federal government ever, but also, ultimately, to their own cause of balancing the budget in seven years.

It is doubtful that the impact of the suspension of government business will lop more than a fraction of 1 per cent off GNP. Important industries and cities have not ground to a halt because 280,000 federal bureaucrats have been laid off. No college football game, the opiate of the New Year season, has been cancelled.

There has been damage, however: to the civil servants, not exactly fat cats, unpaid for two weeks over Christmas; to small federal contractors dependent on government; to the 20,000 people who apply for passports every day and the 23,000 who register with social security; and to the small towns and businesses that live off the seasonal trade of great national parks like Yosemite in California, where the adjacent Mariposa County has declared itself a disaster area.

They may not amount to a collective blip in the national statistics, but their livelihoods are affected – for months ahead – and all are some politician's constituents. To judge by their comments in streams of US media interviews, they are mostly mad with what they frequently call "the clowns of Congress", and soon some poll will doubtless measure their anger.

Perhaps more serious for the congressional right is the offence they have given to the chattering classes, who, when aroused, can still do much to shape public opinion. Nothing has offended them more than the denial of unfettered access to the most comprehensive collection ever assembled in one place of the works of Johannes Vermeer, the Dutch master, at the National Gallery here in Washington.


Last week, Rusty Powell, the gallery's director, was able to open its doors by releasing $30,000 from a private donor fund earmarked for future exhibitions. This was enough to make the Vermeers – but not the rest of the formidable standing collection, nor the concurrent Winslow Homer exhibition – available to the public. And did they come, with lines in frigid weather stretching round the block for precious passes.

But the money is only good for a week, which means that unless Congress comes up with funding for the gallery pronto, the Vermeer exhibition cannot complete its scheduled run until next month. And, like the small businessmen in Mariposa County, just about all the gallery-goers have vented their spleen at Congress. One angry TV commentator suggested that, as a punishment, the 73 Republican freshmen in the House of Representatives be permanently barred from looking at Vermeer's masterpieces (though the impact of such contemplation might well be salutary).

A more severe critic could go further by noting that few of the affected are natural allies of the hard right. Art appeals to the élite and is often decadent; passports are for foreign travel and thus somehow un-American; social security is for the weak; national parks might be more profitable if opened up for oil drilling and commercial exploitation; and Washington itself, a veritable modern Sodom and Gomorrah, would be better off turned into a pillar of salt.

The last word should lie, surely, with the bureaucrats. While they are on unpaid furlough, members of Congress are receiving their salary cheques and, as is their wont during recess, travelling the globe. So a group of US diplomats in Latin America ordered back to work to arrange one such six-nation trip, sent this distinctly undiplomatic message to the state department:

"Frankly, we are disturbed by the thought that while American school children are being turned away from Smithsonian museums, national parks, monuments and memorials, some members of the US Congress are looking forward to seeing exotic attractions like Copacabana, Iguazu, Cuzco, Macchu Picchu and Otavalo – largely at the expense of the parents of those school children."

Perhaps they should push the congressional delegation off a cliff, in the manner of the Incas.

# PEOPLE

# Master of recovery expects scrutiny

## A cautious approach to debt does not rule out a new phase of growth, writes **Robert Corzine**

John Browna, British Petroleum's chief executive, has marked the completion of his first six months in office with the conclusion of a $3.5bn (£2.27bn) natural gas deal in Algeria.

The project, which analysts say will help turn BP into a significant international gas company, attracted beadlines mainly because of its location in a country struggling with an Islamist insurgency. But the deal is also noteworthy in that it will form one of the foundations for a new phase of growth and capital investment at BP, whose last expansive foray triggered a debt crisis in 1992 and the departure of Robert Horton, former chairman and chief executive.

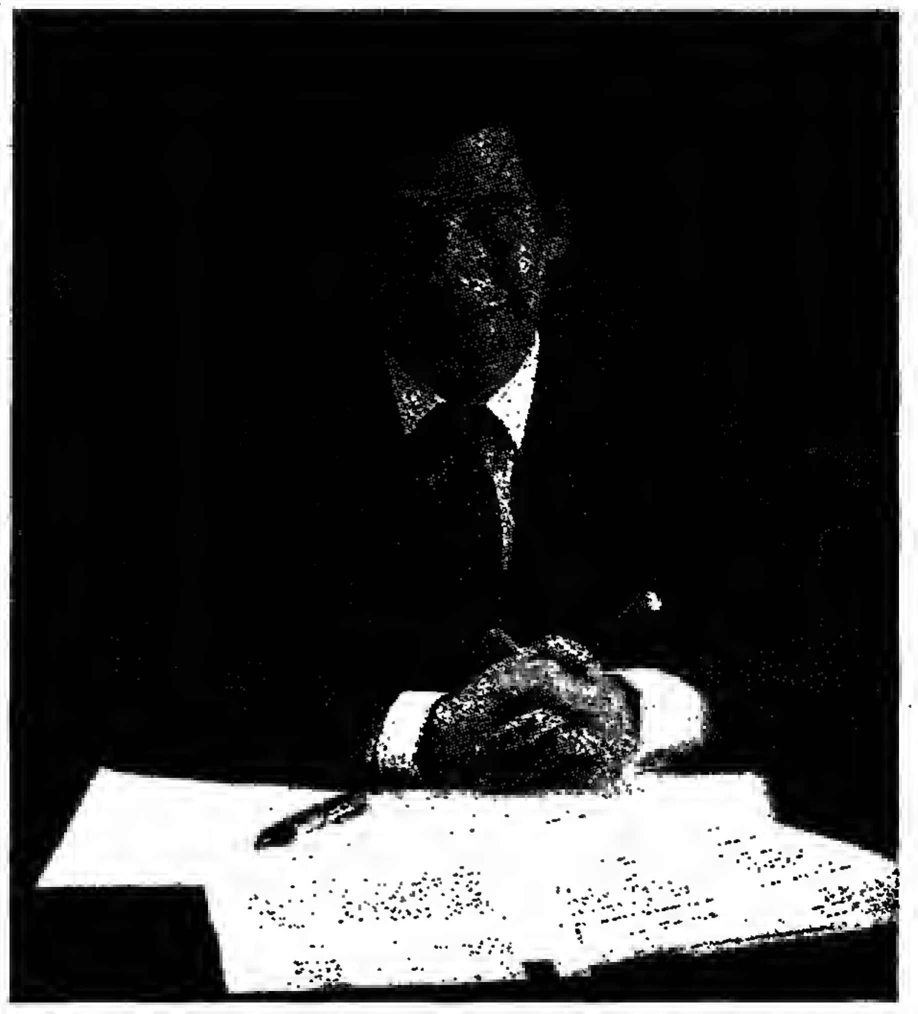
That episode still influences the thinking of John Browne and that of Sir David Simon, BP's chairman and the man who engineered the recovery of the company's fortunes. "We must not leverage this company ever again," said one senior executive last week.

But the company says a cautious approach to debt does not mean that BP is afraid to act decisively to ensure future growth. It has embarked on big oil and gas projects in politically unsettled parts of the world such as Colombia, Azerbaijan and Algeria.

Such projects are a marked departure from BP's traditional core areas – Alaska and the UK sector of the North Sea. But during Browne's tenure as head of the company's upstream arm, the board came to accept that political risk is best spread across a range of projects in different countries. "The real risk is having too much in one basket," says one BP executive, "not in going to risky countries which could have a material effect to the company's bottom line."

Browne also placed emphasis on the "phased development" of such projects. That allows the company to limit its financial exposure during the early stages of a project, when there is likely to be greater uncertainty about whether it will prove technically, politically or commercially viable.

Industry observers say Browne's greatest success was in re-shaping the strategic direction of the exploration arm and ensuring that it had a string of possible projects to choose from. It now has sufficient assets to ensure that reserves can be replaced for another 10 years. That means that while many other oil companies hunt for new reserves, BP can focus on projects that are likely to offer the highest return.


John Browne: emphasises that political risk is best spread across a range of projects

Yet analysts wonder whether Browne will have equal success tackling the problems in BP'a downstream division, the one part of the company of which he has no direct experience and a sector in which big changes may have an impact on BP's customer base.

He has recently devoted time to downstream issues, in particular to the future of the company's refineries. They, like much of the industry, suffer from thin margins and offer little scope for any technological advantage over competitors. An announcement on the further restructuring of the company's refining assets is expected this month.

Browne, an engineer who believes technology can continuously enhance BP's financial performance, is upbeat about chemicals – a segment in which proprietary technology can increase competitiveness and the division thet BP has chosen to lead its expansion in Asia.

An announcement on broader corporate aims is expected in March. There have been rumours in the industry that Browne has contemplated radical changes to the way BP conducts its business, with some observers speculating that Browne, a former corporate treasurer, would like to adopt more of a "merchant bank" approach to the industry.

BP executives say he is more likely to maintain a step-by-step approach, and emulate Simon by setting simple targets related to BP's financial and performance ambitions.

One of his biggest challenges will be to maintain BP's strong financial performance. "You can grow from an uncompetitive base by cutting costs," says one executive. "The hard task is to grow from a competitive base, and not just capture the chemicals cycle at its top." That means BP will have to focus on efforts to keep margins as high as possible even in a downturn.

Browne's strategic aim is to create a "distinctive" company – one with elements that competitors would have difficulty copying and one which would provide unusual financial returns to investors. He emphasises the importance of relationships with host governments, partners and suppliers.

Browne also wants a "unique" set of assets, including markets. But big acquisitions of the type that landed BP in so much trouble in the past appear to have been ruled out for now, although executives say BP will continue to make small-scale acquisitions.

Browne's first six months have been made easier by BP's strong financial performance. But in future there is likely to be greater investor interest in *how he and his colleagues* deal with the narrower issues of the downstream assets and with capital investment decisions.

Senior BP executives say investors are right to demand the highest capital efficiency possible. After all, says one, "the industry as a whole has a pretty bad track record. It hasn't spent money wisely." What of BP specifically? "We should expect to withstand tough scrutiny," he says. "But I don't believe BP will repeat the past."

## FILM AND VIDEO


Sanguine city: Morgan Freeman, playing an overworked detective, deplores greed in Seven

■ You can always tell a new movie year. It stomps into view overturning Christmas trees and growling "No more Mr Nice Guy". 1996's first audiences are invited to choose between *Seven* (serial killer with horrific murder methods), *The Kingdom* (ghoulies in a haunted hospital) and *Four Rooms*, which climaxes with Quentin Tarantino presiding over chopping a finger.

Nevertheless, there are compensations to be found. The faint hearted can take refuge in France's *The Horseman On The Roof* – more buckle and swash from director Jean-Paul *Cyrano De Bergerac* Rappeneau – and in *Something To Talk About*, a marital comedy-drama with Julia Roberts. She twangs a pretty southern accent while Robert Duvall and Gena Rowlands provide power casting as Mom and Pop.

■ In truth, even the nasties are not that nasty. *The Kingdom*, a weirdly hilarious TV mini-series turned four-hour movie from Danish director Lars Von Trier, is more black comedy than spine chiller. And there is humanity between the stomach-testing moments in *Seven*. Brad Pitt and Morgan Freeman play detectives sleuthing through a series of murders patterned after the seven deadly sins.

The moral is, if you want quality cinema you must take the rough with the smooth. But you need not take *Four Rooms* at all. This quartet of stories proves there are days when even wonder children like Tarantino should be locked in the nursery until they get the script right.

■ On video, meanwhile, two films allow you to be adult and childlike at the same time. *Ed Wood* is Tim Burton's funny-elegiac homage to the world's greatest "bad" director, with Martin Landau eating the scenery as the horror actor Bela Lugosi.

And Dianne Wiest similarly eats the scenery in Woody Allen's splendid showbiz comedy *Bullets Over Broadway*. The two actors won last year's best-supporting Oscars.

**Nigel Andrews**

Seven wise men give their opinions on the challenges companies are likely to face in 1996

# Big ideas, big books

*What will be the big management challenge of 1996? And what was the best/most enjoyable/most instructive business book you read in 1995?*

*On this page we print seven answers to these questions.*

**Sumantra Ghoshal, professor of strategic management at London Business School:**

Challenge: Over the past few years many companies have focused on rationalisation and restructuring. Often this has required fragmentation of their organisations into small units and some radical decentralisation. Now, with much of the fat out of the system, the challenge will be to reintegrate their fragmented organisations to pursue new growth opportunities.

Book: *The Boundaryless Organisation* by Ron Ashkenas, Dave Ulrich, Todd Jick and Steve Kerr (Jossey-Bass, San Francisco).

This is a wonderfully practical and down-to-earth book that is both idea-rich and implementation-focused. It provides insightful ideas, clear examples and simple tools – a rare combination in the world of business publications.

**Gerry Robinson, chief executive, Granada Group:**

Challenge: Not to run out of steam. The 1980s was a period of huge growth and expansion through new markets, new technology and a global view of business. The 1990s have been dominated by cost control, cost cutting, streamlining and tighter management control in order to maintain profitable growth. This must not become the main role of management – we must also use creativity, enthusiasm, leadership and sound strategic direction to improve a company's health and growth.

Book: I have to confess that I did not read any business books at all last year. This is not because I feel I have nothing to learn about business but because I did not find the time.

The most important book I read last year was unquestionably *Wild Swans* by Jung Chang (HarperCollins). Reading about China's cultural revolution is more enlightening and satisfying than reading about the corporate revolution.

I am a strong believer in broadening the mind in spheres other than business.

**Tim Simpson, managing director, Arthur D Little:**

Challenge: "Seventy per cent of all re-engineering projects fail", people will tell you, misquoting one of the big change gurus. My view is not so pessimistic. Many companies have made large-scale change work for them, and their performance has jumped as a result.

But with the recovery faltering, and markets ever opening to world competition, sustaining this performance improvement will be the management challenge of 1996.

Book: 1995 was again notable more for books I wanted to read than those I found time for. But one which did hit home was the *Fifth Discipline Fieldbook*, by Senge and friends (Nicholas Brealey Publishing). Ease of reading is one attraction – it's written for browsing and provides usable suggestions on almost every page.

And its central proposition – that learning, and particularly team learning, is a key part of building competence in companies – is intuitively obvious. The book goes further, suggesting practical ways to manage the learning process and build competence faster. And it complements Senge's earlier, more theoretical work, with much more practical experience.

Left to right from top: Gerry Robinson, David Wellings, Adair Turner, Peter Sutherland, George Yip, Sumantra Ghoshal, Tim Simpson

**Peter Sutherland, chairman and managing director, Goldman Sachs International:**

Challenge: To cope with the effects of globalisation. Within a very short time the world has decisively changed and management will increasingly be required to focus on opportunities in, and challenges from, the emerging markets that will provide much of the economic dynamism for the world into the next millennium. An understanding of relatively familiar cultures and relationships will have to be augmented by an understanding of relatively different environments.

Book: I am not proud to admit that I have virtually never read business books (unless written by Sir John Harvey-Jones). In 1995, however, I have read some that I would recommend.

The first of these is *Corporate Level Strategy* by Goold, Campbell and Alexander (Wiley), which looks at managing multi-business companies such as GE, ABB and Canon.

My second and third books are not business books per se but I recommend them because, in today's world, a good manager has to be tuned in to dramatic political change in terms of national sovereignty. Andrew Marr's *Ruling Britannia* (Michael Joseph) is about more than Britain.

It is about a world in transition. One doesn't have to agree with all his conclusions to find his opinions both provocative and relevant.

I would also include *Where Did We Go Wrong – From the Gold Standard to Europe* (Faber & Faber) by the remarkable Eric Roll, who analyses past errors in policy relating to the British economy and, above all, to British negativism towards European integration.

**Adair Turner, director-general, Confederation of British Industry:**

Challenge: Growing. British businesses have got very very good over the past 10-15 years at being lean and mean, at increasing productivity.

They need now to get better at investing for the long term, at marketing, at creating new products. A stable economic climate should make this possible.

Book: Not business but economics, and not one but two. *The State We're In* by Will Hutton (Cape). Disagreed with lots of it and almost gave up after the first two pages of polemic, but provocative and insightful if you persevere. And *The World in 2020* by Hamish McRae (HarperCollins), crystal-ball gazing with insight.

**David Wellings, chief executive, Cadbury Schweppes:**

Challenge: The same as always. Putting forward the best face possible on the past in order to attract investors; scanning the latest mountain for that elusive and obstacle-strewn path to shareholder value; and ensuring that managers of vision, tenacity and stamina are there to step in when you eventually fall off the mountain.

Book: Neville Bain's *Successful Management* (Macmillan Business). Sound, practical advice from a businessman to businessmen. Blessed relief from consultants peddling the latest irrelevant buzzword for keeping in shape "corporate re-engineering" or motivation "empowerment".

**George Yip, adjunct professor of strategy at the University of California, Los Angeles (UCLA):**

Challenge: Multinational companies will continue to face in 1996 the challenge of globalisation and of building global capability.

A successful global company today needs the capability to access and to transfer anywhere in the world technology, ideas, factors of production, and other sources of competitive advantage.

In this regard the biggest challenge will be moving executives around the world in the face of escalating costs.

Book: *Strategic Alliances: An Entrepreneurial Approach to Globalization* by Michael Y. Yoshino and U. Srinivasa Rangan (Harvard Business School Press).

Strategic alliances are a major method for globalisation and this is the best book I have read to date on the international aspects of this subject.

# A product of poetry

**Rupert Morris** wonders how famous verse could be used in advertising

Readers of the Management Page may have noticed that Union Bank of Switzerland has been using poetry in its advertisements.

"Thoughts that transcend time from Union Bank of Switzerland" have appeared on global satellite and cable channels, featuring Sir John Gielgud and others reading classic poems like *Ozymandias*, *Ulysses* and so on.

The poetry was chosen, according to project manager Vincento Travaglione, to embody corporate values of "responsibility, openness, courage and perseverance".

Of course, there is nothing new about poetry in advertising. In the early years of this century, we were regaled with gems like these:

*The Onoto, the Owl and the Waverley pen.*
*They come as a boon and a blessing to men...*

Or the following, proclaiming the attraction of Everybody's, a popular magazine of the inter-war years:

*Oh Mr Porter, whatever shall I do?*
*I was reading my Everybody's and got carried on to Crewe!*

Copy-writing was in its infancy in those days, I suppose, which may explain why these excruciating verses lasted for several years; and yet they were probably extremely effective, imprinting themselves on the popular consciousness in much the same way as the catchiest pop songs.

Nowadays, alas, advertisers are more image-conscious. You can't imagine the Body Shop using some naff rhyme, can you? Ovaltine is the honourable exception, resurrecting the delightful song of those "happy girls and boys", the "Ovalteenies".

But Advico Young and Rubicam, the Zurich agency which dreamed up the UBS campaign, have been doubly smart. Not only have they regaled TV viewers with some decent poems for a change, subtly enhancing their client's image; they have also done it on the cheap by using authors who are long out of copyright.

There is no end to the number of commercial interests that might benefit from a quick glance through the *Oxford Book of English Verse*.

Brewers, for instance, need look no further than A.E. Housman. Indeed, Ind Coope should surely consider funding an A.E. Housman chair of poetry at its Burton-on-Trent headquarters.

No modern copy-writer could improve on this passage from *A Shropshire Lad*:

*Say, for what hop-yards meant,*
*Or why was Burton built on Trent?*
*Oh many a peer of England brews*
*Livelier liquor than the Muse.*
*And malt does more than Milton can*
*To justify God's ways to man.*
*Ale, man, ale's the stuff to drink*
*For fellows whom it hurts to think.*

Your AB audience might blench somewhat at the last line, but self-conscious intellectuals are not usually beer drinkers anyway, so I don't think we need worry.

Haircare has been a fruitful medium for advertisers, and yet one does feel that there is a certain creative vacuum in this field.

Purveyors of hair bleach must despair of that stubborn group of independent-minded modern women who refuse to emulate the models with flowing locks on their screens and become bottle blondes. Perhaps they should try a touch of Wordsworth:

*Earth hath not anything to show more fair...*

And if that doesn't work, there's always Eliot:

*Stand on the highest pavement of the stair –*
*Lean on a garden urn*
*Weave, weave the sunlight in your hair*

On reflection, this verse might be more appropriate for wigmakers. But that's the joy of poetry as an advertising medium. It's so flexible.

Other products and services might not be so easy. It is certainly time the army came up with something better than that macho stuff with young lads driving tanks, swimming, skiing and and generally behaving like would-be contestants on *Gladiators*. How about something that brings out those unchanging values of selfless patriotism? *The Soldier*, by Rupert Brooke, has the right combination of gravitas and romanticism. But that first line is a bit of a downer: *"If I should die..."* You might as well make it a commercial for funeral services.

Now there's a thought. Undertakers have been loath to advertise up to now, but poetry might give them just the opportunity they need. The words of the American Stephen Vincent Benet spring to mind:

*You may bury my body in Sussex grass,*
*You may bury my tongue in Champmedy,*
*I shall not be there, I shall rise and pass.*
*Bury my heart at Wounded Knee.*

At Berry & Birnam we always respect the wishes of the departed. Organ refrigeration a speciality. Or something like that.

# Liquid therapy for the new year

**LUCY KELLAWAY**

I have not been myself recently. Not since I filled my body with a strange orange liquid at the start of the festive season. The incident was quite out of character and the memory of it leaves me feeling sheepish and puzzled even now. Lest you conclude that I went wild on the mandarin liqueur, I should assure you that my liquid was imaginary and that it has made me calmer, unflappable, ready for the new year.

The bizarre story began when a lady named Deborah Marshall-Warren offered me a free trial of something called Orange Liquid Therapy. She said this was a "mental de-tox" session that involved hypnotism, deep relaxation and direct suggestion to sooth all my stresses away. Halfway round the bend with pre-Christmas strain at the time, I felt willing to try anything. When she told me her practice was in Regent Street, that clinched it: I could sort myself out and do some Christmas shopping as well.

Yet when I arrived at her office, I started to feel uneasy. There was an unnatural calm about Ms Marshall-Warren. Her eyes were red and she looked as if she had been crying for weeks. We sat in a tiny cubicle as hot as the Sahara and lit by a large bright globe. "I'm going to put you under quickly", she said. Obediently, I sat in the chair and tried to relax. I looked at the spot on her hand. I closed my eyes. "Feel your calves filling with a warm, orange liquid", she crooned. "It is soothing, tingling, and it is moving, up, up into your knees. Feel your knees filling with a warm, orange liquid. It is soothing, tingling. It is moving, up, up into your thighs..." You get the picture.

When I was full to the brim with orange liquid, I had to imagine it scrubbing out my cares, fears, anxieties, fizzing and dissolving them in much the same way that Domestos gets to work with stubborn household stains. Then, when there was no more work for it to do, I was told to picture it slowly draining out through my fingers and toes. Clean and emptied, I was informed that I was feeling lighter, more confident, better able to cope and happier.

Set down in black and white, orange liquid therapy sounds daft as a brush. I am constitutionally opposed to New Age nonsense. I do not believe in trendy miracle cures for complex problems. The sort of stress relief that makes sense to me is to work less, drink less or to go on holiday.

So imagine my bewilderment to find myself feeling much better after 45 minutes of semi-conscious sloshing around in make-believe coloured fluid. Before entering the cubicle I felt tense, on the verge of hysteria. Afterwards I was cheerful, unbothered even by Oxford Circus in the rain at rush hour, and more or less equal to Christmas.

Yet when I tell my friends and colleagues my wonderful hypnotism story they give me a wary look. As far as they are concerned, I've started on a slippery slope, and soon I will be pushing all kinds of dubious management gimmicks. I insist I am still the same person. They are not so sure. We shall see.

1995 was the year in which the re-engineering craze died. A replacement developed by McKinsey and explained in the consultant's latest quarterly bulletin is called: Do It. Then Fix It. I like this new fad more than the old one, because it comes in words of one syllable. The idea behind it is equally hard to argue with: companies should work out what changes to their business need to be made, then they should carry them out without more ado. Once done, they should assess the result, and if it has flaws, they should swiftly put them right. Indeed, this seems to be such a sensible way of going about things, it is a mystery to me why companies need McKinsey to spell it out to them.

In the middle of all the change that companies are supposed to be undergoing, one thing remains constant: workers feel their bosses do not have their best interests at heart.

Never mind all the empowerment, teamwork and egalitarian structures, employees take the same dim view of their managers as they always have done. According to actuaries Watson Wyatt, less than half believe their company is well managed, or think that their bosses make the right strategic decisions.

The only thing that has changed in recent years is that workers now view their superiors as hypocrites: good at drawing up a set of values for the company, less good at living by those values themselves.

I realise it is not for me to volunteer new year's resolutions for others, especially as I have not made any for myself. But might it not be time for senior managers to start practising what they preach? I used to think that human behaviour was difficult to change, in particular that old dogs could not be taught new tricks. But now I am not so sure. Dare I recommend a little hypnotherapy? On second thoughts it would only work if they wanted to change. And that, surely, is the problem.

**FAST TRACK**

## Tege

Why not start the new year by acquiring a share in Tege, the Swiss company thet is developing a french-fries vending machine?

That's right, insert a £1 coin, wait about a minute and out pops a fresh, hot portion of french fries. Well, almost. The vending machine is still in the prototype stage and unlikely to be on the streets of Europe until next spring.

Nevertheless Tege's shares soared to a high of nearly SFr74 (£41.50) on the Geneva Stock Exchange last May, valuing the company at an impressive SFr68m. They slid recently to SFr48 after it became apparent that the planned launch would be delayed by about six months.

The machine – or rather the french fries production system – is the brainchild of Richard Sorensen, an American inventor. Sorensen joined six European investors, including Jacques Hennessy (of the Cognac house) after an initial association with a US venture-capital company turned sour.

They claim to have put about $6m (£3.8m) into the venture to date. Early last year they reversed into a derelict quoted Swiss funicular company, Tege, and transferred all the patents to it. Together they hold 55 per cent of Tege's 920,000 bearer shares.

Patrick Bigger, a Swiss who is chief executive, said they chose a Swiss incorporation because many of the institutional investors in the project are Swiss and wanted a Swiss franc share. Operations, however, are based in England, where a three-month market test with 25 machines is scheduled to start next March.

The problem with producing french fries is that the fries quickly become soggy. Thus a vending machine can only work if it makes a fresh portion every time. Sorensen's solution is to use potato powder.

Once an order is made, a given amount of powder is measured and mixed with water to achieve a dough-like substance. The dough cube is pressed through an extruder into french fries which fall into four steel baskets in a pot of hot oil. The baskets revolve slowly around the oil pot and a minute later tip the fries into a chute where they fall into a cardboard sleeve.

The clever bit, claims Bigger, is the composition of the powder, which contains patented additives that make it form into a perfectly consistent dough within five seconds. Any dough left lying about quickly reverts to harmless dry powder.

The oil is kept at 220°C, well below its boiling point, and is frequently stirred even if no orders are being taken. It is also automatically filtered and topped up for losses that go with the fries.

Tege executives are now setting up licensing and marketing arrangements in many countries and spinning out creative sales and profit forecasts. In one projection, 1999 net income comes in at SFr92.9m.

They plan both to sell and lease machines and supply the magic powder. A machine will sell for about SFr15,000 and revenue and earnings projections are based on portions being sold for £1, DM1.50 (£0.67), FFr4.50 (£0.58), or SFr1.80. They assume the average machine will sell 50 portions a week.

The company needs another $6m or so to cover its costs until revenues start flowing in. A convertible bond issue is the most likely route, says Bigger.

**Ian Rodger**

## MEDIA FUTURES

# Pobox and the magic cookie

**Tim Jackson**

Which company will have the greatest effect on the development of the Internet this year? My answer is neither Microsoft nor Netscape. It is a tiny new company in Philadelphia called Pobox.com – spelt as if it were an abbreviation of Post Office Box, but pronounced as the single word "Pobox". Its product consists of a simple forwarding service that is an electronic equivalent of a post office box.

The system works as follows. Customers give out an e-mail address ending in *pobox.com* – like the one that appears at the bottom of this column. When their friends or colleagues send them e-mail at that address, a computer in Philadelphia looks up the recipient in a data base and forwards the message immediately to their Internet provider.

This service allows people to give out an e-mail address that is independent of where they work or where they choose to buy Internet access. Moving from one Internet provider to another is simply a matter of sending a message to *pobox.com* giving a new forwarding address and quoting a "magic cookie", a number that establishes the customer's authenticity.

I have already discovered an advantage of the service. Having recently moved from London to Silicon Valley in order to work on a book, I have switched Internet providers. But my address has remained the same, and messages sent to me as if I were in London are forwarded to me in California without my having had to tell anyone how to reach me.

Yet people moving house are not the sole market. Other potential users includes customers of CompuServe, which allows people to use only an indecipherable string of numbers as their e-mail address.

Equally attracted will be those who are embarrassed by the cumbersome length or strange letter-and-number combination of their real e-mail address.

The entrepreneurs behind Pobox.com are a pair of students at the University of Pennsylvania, still living in a college dormitory: Reuven Bell, 23, whose subject is religious studies, and Meng-Weng Wong, 21, a computer science major born in Singapore. The two launched their service in early 1995, and already have 3,000 users. In keeping with the principle that most of the best Internet businesses start off by giving things away, the pair offer a generous free trial lasting three months.

Thereafter, the price for forwarding mail starts from $15 a year, payable by credit card – with the incentive of six years for the price of five to those who choose to pay $55 in advance.

Three months is exactly right for the trial period. It is long enough for customers to become comfortable with the service and to give their new e-mail address to all their friends, but not long enough for anyone to find it worthwhile to start again with a new name from scratch.

So far, 850 electronic invoices have been sent out, and almost half have been paid. Because of a glitch in the billing software, Bell and Wong have not yet had time to send out reminders. But early indications are promising, and the pair claim that an automated trawl of Internet newsgroups has turned up more than 1,000 mentions of their service, only one of which was negative.

Whether Pobox.com will make serious money or not is too early to predict. Its founders certainly hope so. Bell has just taken time off from his degree to work on the business 12 hours a day, and is planning to pursue some Wharton MBA courses on his return to academia. Moreover, the company already has imitators: a sign, surely, that others see the potential in its idea.

Even a modest success could have a sharp effect on the Net. It would remove the fear of changing e-mail address that forces many to stay with an unsatisfactory service provider. In doing so, Pobox.com's success would make a large global industry significantly more competitive.

● Talking of magic cookies, someone recently sent me the following story by e-mail. A woman who had eaten a delicious cookie at the café of a department store in Dallas asked for the recipe. "We don't give it out," said the waiter. However, the customer persisted and offered to pay for the recipe.

On hearing that the price would be "two fifty", she agreed to charge it to her credit card along with the bill for her lunch, and was then handed the recipe on a printed sheet. Thirty days later, her Visa statement revealed she had been charged $250.

The furious cookie lover called the company's head office, thinking that the real figure should have been $2.50, but was told there was no mistake.

The $250 was to insure that not just anyone could afford the recipe. Accordingly, her request for a refund had to be turned down, but the woman got her own back in the end.

She copied the recipe into an e-mail, which she posted to all her friends. They posted it to their friends, and they in turn to theirs. "I paid for it," her e-mail said, "so you can have it for free."

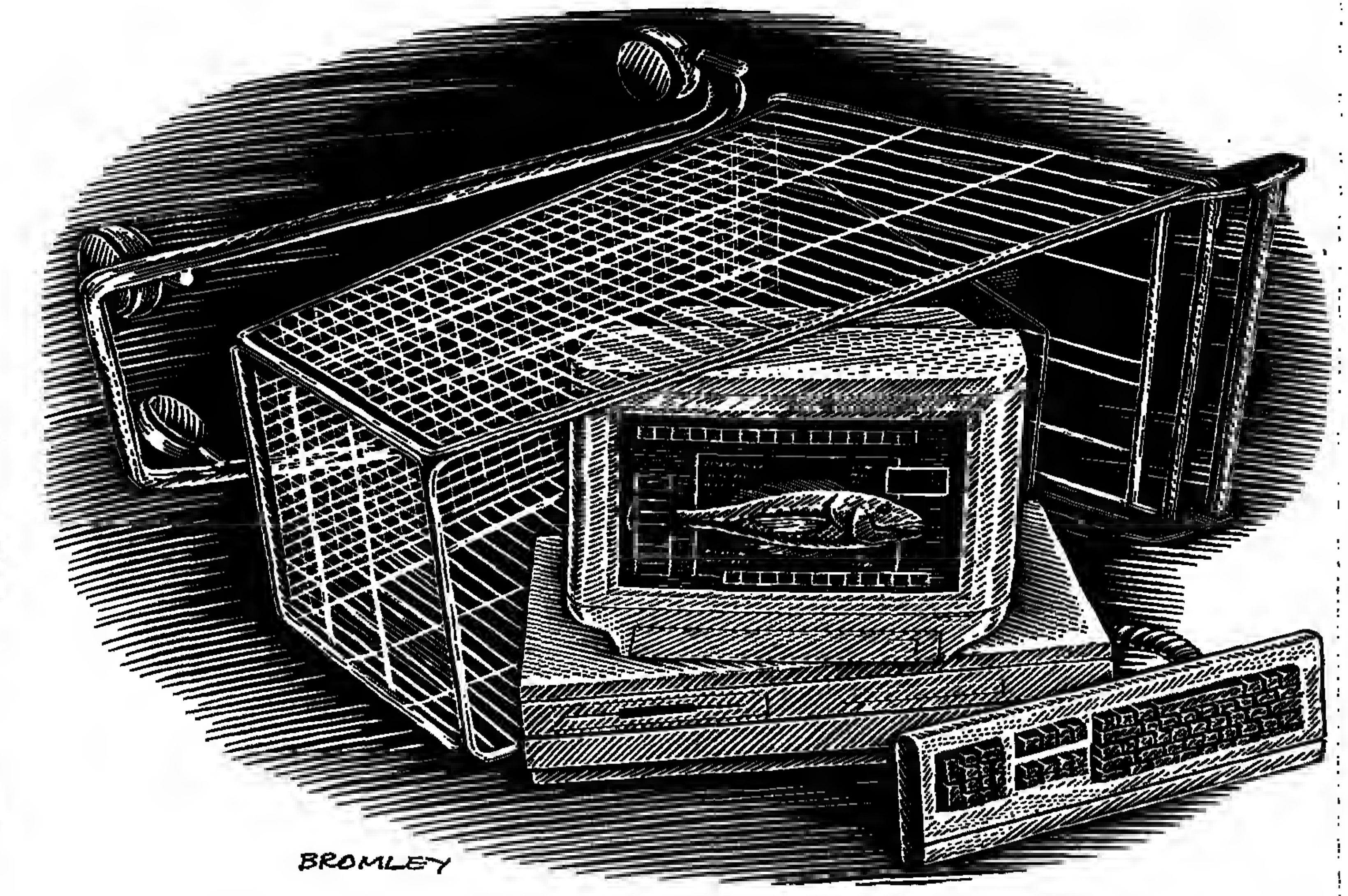
I find it hard to imagine that the department store named in the e-mail would behave in such a pig-headed way.

But even if apocryphal, the story illustrates the power of the Internet. By the time you read this, tens of thousands of people may have baked cookies according to the recipe without paying $250. And the name of the store chain will have been blackened on computer screens all over the world.

*Tim.Jackson@pobox.com*

# Home shopping takes a tumble from its trolley

### Enthusiastic predictions of a couch-potato future were premature, writes **Winston Fletcher**




A funny thing has happened. Home shopping, that supposedly trail-blazing benefit of interactive television, has fallen out of its supermarket trolley.

Less than a year ago the pundits were predicting a couch-potato future for us all. Sitting comfortably in front of our screens, we would surf the stores and trawl the malls. Never again need we venture into the rough, tough world of Marks and Spencer or Sainsbury's. We would click-on, cruise-thru', and our cyber-shopping trollies would be filled by techno-magic.

Well, it hasn't happened yet. But is it on its way?

The picture is confused as there are two types of televisual home shopping. First, conventional satellite/cable channels offering merchandise in a fairly traditional way. Second, shopping emporia – mostly American – are burgeoning on the Net.

The more knowledgeable US home shopping gurus have long been suspicious of the forecast explosion in their marketplace. QVC, America's largest, highest profile home-shopping channel, mostly sells jewellery (42 per cent of its turnover) and clothing (18 per cent). For clothing, the return rate is about 40 per cent.

A couple of years ago QVC's then retiring chairman, Joseph Segel, said in a notable speech: "The number of people tuned to a particular channel when your advertising runs is likely to be a small fraction of the number you could reach with direct mail. The cost of running a shopping channel is much greater than most people realise. Some system developers and their software programmers assume that consumers are itching to be converted from passive to interactive TV viewers. Certainly there are some people who fit that mould. But I venture to say that the great American public prefers just to watch television and let someone else do the work."

In turn, futurologist John Naisbitt's well-informed *Trend Letter* – a publication understandably keen to embrace almost anything and everything new under the sun – recently asked: "Is the much-hyped age of online shopping about to bloom? Not really." The same issue of *Trend Letter* reported that "merchants on the Internet are reluctant to solicit credit-card numbers for payment, lest hackers steal account numbers" – a little cybernetic difficulty that has by no means been resolved.

Nonetheless, research estimates suggest that 2m online purchases were made in the US in the last year. That sounds an awful lot until you remember that it equates to a single purchase by less than 1 per cent of America's population. And Americans, particularly those living way out nowhere, have always been catalogue shoppers, so direct marketing has always been big business in the US.

It is a far-flung country, and even with gasolene as cheap as Coke it doesn't make a lot of sense to drive hundreds of miles for a rubber grommet. In other words, established home shoppers may just be switching media, from print to Net – without new shoppers being inveigled into the couch-potato lifestyle.

Where Americans are slow to lead, Europeans are even slower to follow. At the end of 1994 a study of the multimedia marketplace in Europe carried out by leading research group Inteco reported that the demand for home shopping was non existent. "No one in the study," it proclaimed, "showed any interest in being able to order goods electronically."

The progress of home shopping in Britain confirms that. QVC started with a bang in the UK but sales appear to be stabilising at about £50m annually – not a lot with which to run a full-time channel and supply some 300,000 customers.

Part of the reason for this disappointing growth is the result, I suspect, of the hype attached to the phrase "virtual reality". Televisual shopping, it is claimed, provides "virtual reality". In a virtual reality supermarket you can whiz round the aisles picking up a pack of this and a jar of that as you skid past the shelves. It sounds so futuristic, so clever, that we have been seduced into believing it would be wonderful. But would it?

It would certainly be fun once or twice, like a video game. But we all know what has happened to the sales of video games. The problem is that virtual reality really doesn't bear much resemblance to reality.

We encounter reality *through our* five senses: sight, sound, smell, taste and touch. So-called virtual reality offers reality in – at best – two dimensions: sight and sound. Sight is the most important single sense involved when we go shopping. But it is not the only one.

As supermarkets are well aware, smell is all-important. That is why they put fruit and vegetables at the front of the store, and bake their own bread. For many products, touch is as important as smell. ("If you don't want the goods, don't muck 'em about", went the old costermongers' injunction, to restrain customers from manhandling the produce).

Paradoxically, it is in the area of sight that virtual reality is least real. If Bill Gates, the boss of Microsoft, believes that projecting huge cyber-blowups of great masterpieces on to his walls will convey even a tad of their artistic merit, it is as well he never tried to major in aesthetics.

But never mind great paintings. Would you even buy fresh meats or fish, or even *fruits and vegetables, without* seeing them in the flesh? If people didn't want to inspect the goods carefully and choose the freshest, why would they shop at the deli counter? The newest Tesco stores now have large old-fashioned butcher's sections. And if you want to inspect groceries *before* you buy them, why not shop for the lot at one stop?

Apart from groceries, the sector that has generated most chatter among the marketing classes – but again, little action so far – is cars. (The marketing classes are not much interested in jewellery – not in selling it, anyway).

Automotive gurus constantly predict that the end of the showroom is nigh: motorists, it is said, will compare and contrast different models on-screen before selecting their test-drive short-list. And one day, even the test-drive will be taken on-screen.

**Never mind great paintings. Would you even buy fresh meats or fish, or fruits and vegetables, without seeing them in the flesh?**

The assumption is that video information is more appealing to motorists than printed or personal (showroom) information. Maybe. But feel, comfort, guidance – even smell – are important reasons for showroom visits, and cannot be duplicated by "virtual reality".

Which may explain why the only area in which home shopping seems to be taking off is one in which virtual reality is virtually non-existent – the marketing, not of goods, but of services, particularly financial services.

As financial products are, so to speak, invisible and intangible, they are ideal for telephone selling. While financial service providers increasingly use direct response television advertising cost-effectively, their commercials could hardly be described as virtual reality. Or indeed, in many cases, as reality of any sort.

Not that home shopping is not going to grow. It will, but it will be slow and highly specialised. Delivery takes time and costs money. Many people, perhaps most, will never feel comfortable with computers. Forget those middle-class parental boasts of brilliantly sophisticated computer-literate kids; think, instead, about all the underprivileged, compnter-illiterate kids.

Nor is home shopping quite as revolntionary as cyberbuffs believe. Almost exactly a century ago the Victorians were opening up their own version of the information superhighway (and with at least as much hyperbole). The UK postal service, the railways, the telephone and the telegram were bustin' out all over. Telegrams were described – as new media so frequently are described by their sponsors – as "the boldest advertisements in modern times."

By the turn of the century, all the great London department stores had mail-order departments. Harrods, which pioneered home shopping hy telephone, rejoiced in the telephonic address EVERYTHING, LONDON. Whiteley's in Bayswater boasted they could supply anything "from a pin to an alephant" door-to-door.

And the Army and Navy store sped huge mail-order catalogues to its customers in every corner of the globe, carrying within their covers a cornucopia of sumptuous and succulent merchandise. Moreover, delivery was often a good deal faster and cheaper than it generally would be today.

Home shopping may yet be the bonanza of the future. But I wouldn't bet my Tesco shares on it.

*Winston Fletcher is chairman of the UK advertising agency Delaney Fletcher Bozell.*

## Cyber sightings

By Stephen McGookin

● Kicking off this US presidential election year, the Doonesbury Town Hall site (*www.doonesbury.com/main.html*), based on Garry Trudeau's consistently brilliant strip cartoon, looks a fine way of keeping tabs on the campaign as it unfolds. The site slogan: "Join the fight against cluelessness") has a daily news briefing and links to the PoliticsUSA resource, as well as a chat hall and a straw poll. Top notch.

● As access increases to the former Soviet Union and eastern and central Europe, the Prague-based Open Media Research Institute (*www.omri.cz*) – a successor to Radio Free Europe – offers useful resources including a daily digest of economic issues affecting the region.

● A new site from United Airlines (*www.ual.com*) is an example of how a primarily corporate marketing site can be user-friendly and informative. Very well done, nice graphics, not too much text per page and easy to navigate around.

● The Taiwan Business Directory (*http://business.com.tw*) is a searchable guide to products and companies from Taiwan. It's indexed by company name and, comprehensively, by product classification. There are eight contact entries alone under the heading Food and using the sub-category Soy Sauce.

● Empower (*www.megalinx.net/empower*) is "Black America's Magazine for the Information Age", with a newswire, articles about the affirmative action debate, and a good business profile feature, focusing on African-American achievers.

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**SPORT / ARCHITECTURE**

# Green turns dark for the struggling golf club pro

Peter Alliss recently observed that the average club golfer expects the local professional to play like Nick Faldo, teach like John Jacobs and be as good a shopkeeper as Marks and Spencer.

Very few club members realise how much of an endangered species the non-tour golf professional is about to become, especially in Britain, the home of golf. Traditionally, the pro has received a small retainer from his club but earned the bulk of his living selling equipment and giving lessons.

Yet selling equipment to club members is becoming virtually impossible as the tiniest of retailers strives to compete against specialist chain stores such as American Golf Discount and Nevada Bob's.

"The members don't realise what a financial strain it is to carry the stock on a big overdraft and they can be such fickle customers," says Haydn Darrell, the pro at the small Devon club of Sidmouth. "I'll see them turn up to play with a new set of clubs and I won't even have had the chance to match the price they've paid from one of the big chain stores."

Darrell's experience is echoed nationally. A recent report from the specialist Golf Research Group predicted that the 2,400 retail outlets supplying the UK golf equipment market will have shrunk to only 200 to 300 shops within a year or two.

"The traditional pro shop just cannot survive," says Colin Hegarty, head of GRG. "The average gross turnover is around £110,000 a year and they cannot stock the shop and survive on that kind of volume."

His figures show that the bigger retail outlets are growing fast, with a matching shrinkage at the smaller end. Hegarty says the club pro has two options: "Get out of the business quickly: it's better to take a big loss than stay and starve to death. Or become an Alan Walker."

SPORT

KEITH WHEATLEY

Walker is a former club pro – 10 years at the coalface – who realised he was a doomed species in a thriving industry, so he now has a high-volume shop adjoining his Warren Park driving range in Essex, plus a management company looking after a nearby pay-and-play course.

Walker says that club pros have lost their retail business "frighteningly quickly. Five years ago it was a £130,000 average turnover with a 35 per cent margin. That's all over."

His own shop turns over slightly more than £1m a year, but a branch of American Golf Discount has just opened on Walker's doorstep.

"We're being hurt," he admits. "Teaching alone isn't the answer to replacing lost income. Firstly, statistics show that the British are the worst golfers in the world in terms of readiness to take instruction. Secondly, it's too seasonal. Who's having a lesson today?"

He looked out of his office window as an arctic snow shower blasted across the 14th green. Few issues currently occupy the Professional Golfer's Association as intensely as the livelihoods of its 3,500 members. As a result, a PGA working party is radically re-thinking the *raison d'etre* of the pro.

It doesn't help that while the public image of the golf professional is Nick Faldo or Ernie Els, superstars like those are a light year away from the everyday work of the pro at the local club.

When the PGA wanted a leading figure for a publicity campaign, it found Faldo's fee unaffordable, so ended up using Nigel Mansell, one of the game's better-known amateurs.

Alan Walker is a committee member at the PGA and is deeply involved in the process of reviewing future direction. As one experienced insider put it: "We have to stop training people for futures they are never going to have. They're not going to be Woosnam or Norman, and now they're not going to be a successful shopkeeper, either."

Walker acknowledges the problems. "At the end of the day we're all failed players," he says. "I went into the game thinking I could play and was going to spend my days on the course winning tournaments, and I've ended up an accountant." Later this month the PGA opens an £8m training academy at its headquarters, The Belfry, the hotel course in the English Midlands that has hosted several Ryder Cups.

Leisure management and course architecture are much more important now than learning how to spend several hours repairing a persimmon-headed driver for a tiny fee.

The qualifications dished out at The Belfry will be equivalent to a degree. "We've always been reluctant retailers, and the tour is for a tiny minority, of whom 75 per cent won't cover their costs," says Walker. "The jobs we've got to aim for are those of actually managing the facilities, which in the past have gone to food and beverage specialists or greenkeepers.

"In the future, if your local club pro can't drive a computer and work the local media, forget admiring his short game around the green."

If the pro can re-engineer himself to survive, what of the shop? We may not buy much, but which weekend golfer doesn't enjoy a mooch around his club shop's over-stocked shelves?

"It's history," says Colin Hegarty. "Marks and Spencer are already moving into clothing in a huge way and the big chains will be selling all the clubs and equipment. A starter's hut where you can buy a glove and a ball – if you've forgotten to bring them – is the most likely outcome."

● *1995 UK Equipment Survey: Golf Research Group, £495. Tel: 0181-987-9950. Fax: 0181-995-1573.*

Colin Beere

**Altered landscape: "If your local club pro can't drive a computer and work the local media, forget admiring his short game"**

# Year of the millennial re-think

At least 1995 ended on a note of pure wisdom. For once, the old English system of independent representative groups of well-informed individuals appointed by the crown to guide our affairs worked brilliantly, with the millennium commissioners proving themselves worth their salt by refusing to allocate national lottery money for the proposed Cardiff Bay opera house.

For too long Lord Crickhowell and his opera house trustees have been led by the nose by London architectural groupies and admirers of the designs of Zaha Hadid, who won the competition to design the proposed opera house.

The common sense of the minister, Virginia Bottomley, and her commissioners will save Wales the embarrassment of a design that is not supported by the people of Wales and is already dated.

A Cardiff Bay opera house as a new home for the Welsh National Opera is a good idea, and no doubt a large theatre will be built there. The mistake was for the opera house trustees to believe they had to build something approved by a narrow segment of the international architectural mafia.

The jury for the competition was unrepresentative and innocent, seemingly prepared to let Miss Hadid's quaintly modern period piece go ahead even though she had never built a serious building. Miss Hadid is really a talented futurist painter – her work would have been *avant garde* in turn of the century Russia. Today it is labelled "uncompromising" and "exciting". It is neither. The trendy London chatterers who influence people like Lord Crickhowell should be seen for what they are: rearguard types trying to protect a briefly fashionable designer. But Miss Hadid is no genius.

The tragedy of the inevitable row about Cardiff Bay is that the failure of Miss Hadid's design will be seen as a triumph for the philistines. It is actually a dated, awkward design that only got this far through endless lobbying. The millennium commissioners, who distribute part of the proceeds of the UK national lottery, have called the bluff of the trendies.

Sensible opera house trustees should look at the newest opera houses in the world; meet their architects and managers; and choose someone with experience. The trustees must start again with a good new architect. Life is tough, but Virginia Bottomley is tougher, and in this case she and her commissioners are right.

Last year, national lottery money gave a fillip to the UK's architectural profession. The turnover of the British construction industry should benefit by some 5 per cent or so in the years to the millennium. It is large-scale projects that attract attention, but some 90 per cent of lottery grants are for projects of less than £1m.

Yet 1995 saw construction still in recession and architects only beginning to see green shoots of recovery. The secretary of state for the environment, John Gummer, belatedly recognised the value of towns. His new planning policy guidance notes, to be issued early this year, will stress the value of mixed developments. That is an almost complete *volte face* for the entire planning system. If he is serious, Gummer will presumably be re-educating the entire planning profession at the new University of Greenwich.

He will have to start with the Corporation of the City of London which, since the inspired but disastrous experiment of the Barbican, has abandoned any pretence that the City is more than a Square Mile of offices. The recent announcement of two big office schemes in EC4, and the decision to encourage Mitsubishi to go back to the drawing board on the Paternoster site, means the City may be in danger of becoming a horizontal version of Canary Wharf.

The opportunity at Paternoster to build a mixed development, giving Mitsubishi the chance to build as many offices as it likes on, say, London Wall, must not be missed. In turn, the chance to move the Museum of London to a marvellous site next to St Paul's should be grasped, and why not have hotels and residential accommodation overlooking Wren's wonder?

Architects in 1996 need to learn to be different kinds of animals. Those like Miss Hadid and Sir Richard Rogers (imminent adviser to the new Labour party) who are wedded to dogma, are now old fashioned. Architects like Sir Michael Hopkins, Sir Norman Foster and Richard MacCormac are the leaders of the profession, and also admired by the public.

That is a breakthrough, and one that has come about because the public are under-estimated by architects at their peril. The public – you and me – understands the difference between quality and a dead cow in formaldehyde. Virginia Bottomley and her commissioners understand the difference, too. In 1996, quality and common sense may replace dogma and fashionable nonsense. I live in hope.

**Colin Amery**

**THE WEEK AHEAD**

## DIVIDEND & INTEREST PAYMENTS

**■ YESTERDAY**
BICC Cv Pf 4.3p
Barbados 13½% Ln '15 6.75p
Baynes (C) Cv Pf 2.9p
Birmingham 2½% '26 £1.25
Do 3% 1947 £1.50
Do 3% 1932 £1.50
Do 3½% 1946 £1.75
Do Gas Anns 50p
Do Water Anns 50p
Blackburn 3½% Irrd £1.75
Do 4% Cons Db Irrd £2.0
Blockleys 6% Cm Pf 1.05p
Boosey & H 5½% Cm 1st Pf 1.925p
Do 7% Cm Pf 2.45p
Bridon 6% Cm Pf 1.05p
Calgary & Ed Rlwy 4% Db ('02) £2.0
Can Pacific 4% Perp Db £2.0
Capital Inds Cv Pf 01/05 4p
Coastal $0.10
Comm Union 3½% Cm Pf 1.75p
Cordiant 6% Cv Ln '15 £3.0
Crane Europe 5½% Pf 1.925p
Elliott (B) 3.15% Cm Pf 1.575p
Fleming O'seas Inv 4½% Perp Db £2.25
Friendly Hotels 4¾% Cv Pf 2.375p
Do 7% Cv Pf 3.5p
Do 11⅛% 1st Mtg Db '15 £5.5625
Fuller Smith & T 4.2% Pf 2.1p
Do 8% 2nd Pf 4p
GTE $0.47
Grand Met 5% Pf 1.75p
Do 6¼% Cm Pf 2.1875p
Hartlepool Water 2.6p
Iceland Cv Pf 2.75p
Illingworth M 4½% Cm 1st Pf 1.575p
Kenning Motor 5½% Pf 1.925p
Do 7% Pf 2.45p
Kensington & Ch 11.15% Rd '06 £5.575
Leeds 2½% Rd £1.25
Do 3% Db £1.50
Do 5% Irrd £2.50
Lilleshall 5% Pf 1.75p
Do 9% Cv Pf 4.5p
Lincoln 3% Rd £1.50
Liverpool 2½% Rd £1.25
Dp 3½% £0.875
Lowland Inv 11¼% Db '10 £5.625
MAI Cv Pf 2.95p
MEPC 10¾% 1st Mtg Db '24 £5.375
Mersey Docks 3⅝% Irrd Db £1.8125
Do 6⅝% Rd Db '94/97 £3.3125
Met Water East Lon 3% Db £1.50
Mucklow (AJ) 11½% 1st Mtg Db '14 £5.75
Murray Income Tst 4¼% Pf 2.125p
New Brunswick Rlwy 4% Perp Db £2.0
Newcastle-upon-Tyne 3½% Irrd £1.75
Oldham 4% Db £2.0
P & O 6¾% Cv Pf 3.375p
Port of Lon 3% A 29/99 £1.50
Powell Duffryn 4¾% Cm Pf 0.83125p
Reading 3% £1.50
Reckitt & Colman 5% Pf 1.75p
Renold 6% Cm Pf 2.1p
Republic New York $0.36
Russell (A) 5¾% Cv Pf 2.875p
Sara Lee $0.19
Sears 7% A Pf 2.45p
Do 7½% Pf 2.625p
Do 12½% Pf 4.375p
Shoprite Fin (UK) 7⅞% Pf '09 3.9375p
Simon Eng 4% Pf 84/96 2p
Do 5.4% Pf 2.7p
Do 6% Pf 2.1p
Do 6.35% Pf 1991/96 3.875p
Do 7¾% Pf 1992/97 £4.625
Simons 7½% Pf 2.625p
Smith (J) 5½% Cm Pf 1.925p
South Australian 3% Cons £1.50
Southend Prop 5½% Rd Pf 2.75p
Do 8% Un Ln 2020 £4.0
Swansea 3½% £1.75
Three Valleys Water 4% Irrd Db £2.0
Do 3½% Irrd Db £1.75
Do 4% Irrd Db £2.0
Do 4% Irrd Db (1994) £2.0
Do 5% Irrd Db £2.50
Do 5% Irrd Db (1994) £2.50
Do 10% Irrd Db 1996/98 £5.0
Toronto Grey Rlwy 4% 1st Mtg Bd £2.0
Town Centre Sec 9% Un Ln 96/2000 £4.50
UK Estates 6% Cv Pf 3p
Xerox $0.75
Yates (WE) 7½% Pf 2.625p
Young & Co's Brew 3½% Irrd Db £1.75

**■ TODAY**
Abbot 7¼% Cm Pf 3.625p
Allied London Props 2.82p
Amec 1.5p
Amersham Int 4.9p
Anglian Water 5⅛% IL Ln '08 £3.237
Appleby Westward 3.2p
Asprey 8¼% Cm Pf 4.125p
BICC 4p
Bardon 7.25p Cv Pf 3.625p
Baxter Int $0.2825
Blue Circle 7⅝% Cv Pf 3.8125p
Booker 7.9p
Bowater $0.15
Bristol Water 4% Db Irrd £2.0
Do 9.8% Rd Db 1996 £4.90
Do 10.4% Rd Db 2000/02 £5.20
Brit Aerospace 7.75p Cv Pf 3.875p
Brit Empire Sec Tst 8⅛% Db '23 £4.0625
Do 10⅜% Db 2011 £5.1875
Brit Sugar 10¾% Rd Db '13 £5.375
Brunel 4.6p Cv Pf 2.3p
Bulmer (HP) 9½% Pf 4.75p
Do 8¾% 2nd Pf 4.375p
Bunzl 2p
Cambridge Water 175p
Do 4% Cons Db £2.0
Do 10% Rd Db 1996/98 £5.0
Do 13% Rd Db 2004 £6.50
Carlton Comms 6.5p Cv Pf 3.25p
Dee Valley Water 4.83p
Do N/Vtg 4.83p
Dp 7⅞% Rd Pf 96/98 3.9375p
Denmark 3½% Ln 1901 £0.485275
Enterprise Oil 10⅝% Nts '96 £531.25
Felixstowe Dock Pf Units £3.25
First Db Fin 11⅛% Svily Gtd Db '18 £5.5625
Fleming High Inc Inv Tst 1.15p
Folk & Dover Water 4% Perp Db £2.0
Do 5% Perp Db £2.50
Do 11½% Rd Db 2004 £5.75
Gencor 6% Gross Pf R0.06
Greece 5% Ln 1881 25p
Do 5% 1881 £ Fdg bd 1985 62.5p
Do 5% Ln 1884 25p
Do 5% Ln 1884 £ Fdg Bd '65 62.5p
Do 4% Monopoly Ln 1887 20p
Do 4% Monopoly 1187 £ Fdg Bd '65 50p
Do 5% Fdg Ln 1893 25p
Do 5% Fdg Ln 1893 (Bd) 62.5p
Do 4% Ln 1902 20p
Do 4% Ln 1902 £ Fdg Bd 1965 50p
Guardian Royal Exchange 3.1p
Guinness Fin Aust 10% Gtd Nts '96 A$100.0
Hewetson 7% Cv Pf 3.5p
Hillsdown 2.2p
Hughes (TJ) 0.8p
Johnson Grp Clean 7.5p Rd Pf 3.75p
Do 9% Cm Pf 3.15p
Joseph (Leopold) 4.5p
Kyushu Elec 8% Nts 1997 £80.0
Land Sec 6¾% Cv Bd 2002 £67.50
Leo 1 A2 Mtg Bckd FRN '35 £1788.42
Leo 2 A1 Mtg Bckd FRN 2032 £118.53
Do A2 £177.33
Locker (T) 0.3p
Do A N/Vtg 0.3p
MEPC 12% Bd 2006 £600.0
Manchester Ship 3½% Perp 1st Mtg Db £1.75
Do 3½% Perp Db £1.75
Do 4% Perp 1st Mtg Db £2.0
Do 4% Perp 2nd Mtg Db £2.0
Do 4% Perp Db £2.0
Martin Int 0.45p
Merchant Retail 8¾% Un Ln 99/04 £4.375
Mid Kent Water 9⅞% Rd Db 97/99 £4.9375
Do 12¼% Rd Db 2005 £6.125
Mid-Sussex Water 4% Perp Db £2.0
Do 5% Perp Db £2.50
Do 11% Rd Db 2012/16 £5.50
Montenegro 5% Govt Ln 1909 50p
Mucklow (A & J) 3.3316p
NS Wales Treas 11½% Gtd Exch Bd '99 A$575.0
Next 3.75p
North East Water 10.3% Rd Db '96 £5.15
PSIT 8% Cm Pf 4p
Photo-Me Int 3.5p
Plantation & Gen Invs 1.2p
Do 9½% Rd Pf 4.75p
Portugal 3% Ext Debt Ser 1 30p
Do Ser 2 29.85p
Do Ser 3 9.95p
Premier Health 6% Cv Ln Nts 2000 3.17p
Rights & Issues Inv Tst 11.5366p
Do 5½% Cm Pf 5.5p
RTZ 3.325% A Cm Pf 1.6625p
Do 3½% B Cm Pf 1.75p
Rubicon 6% Cm pf 1.05p
Sabre Lease 7¼% Mezz Secd Nts '01 £181.25
Do 5.8% Snr Secd Nts '01 £1450.0
Sears Roebuck $0.23
Silentnight 2.75p
Slough Estates 11⅝% Bd '12 £1162.50
South Staffs Water Hldgs 23p
Do 9% Rd Pf 98/2000 4.5p
South Staffs Water 3½% Perm Db £1.75
Do 4% Perm Db £2.0
Do 5% Perm Db £2.50
Do 9¼% Rd Db 98/2000 £4.625
Stratagem 4p
TMC PIMBS 2nd Fin Nts No 3 Aug '31 £9157.88
Tops Ests 10¼% 1st Mtg Db 11/16 £5.125
Town Centre Sec 2.25p
TR Far East Inc Tst 1.6p
TSB 12% Sb Bd 2011 £1200.0
Vitec 2.8p
Willis Corroon 1.65p
Wrexham Water 3½% Cons Db £1.75
York Waterworks 8% Rd Pf '97 4.5p
Do 10% Rd Db 96/98 £5.0
Yugoslavia 5% £ Fdg Bd 1936 £5.0

**■ TOMORROW**
Airflow Streamlines 3p
Alida 9½% Cm Pf 08/13 4.625p
BAT Inds 8.25p
Barry Wehmiller 4.3p
Betterware 0.85p
Black Arrow 1p
Boots 9% Bd 1997 $450.0
Brent Int 9% Cm Pf 4.5p
Brockhampton 5.2p
Do A N/Vtg 5.2p
Cater Allen 9p
Cheam A 6.5p
Do B 6.5p
Claremont Garments 4.4p
East Surrey 6.2p
Essex Furniture 2.2p
Etam 0.5p
Finlay (James) 1p
Fishers Int 0.12p
F & C Spec Utilities Inv Tst 2.95p
Do Package Units 2.95p
GBE Int 0.5p
General Accident 10.7p
Do 8⅞% Irrd Pf 4.4375p
SEC 2.25p
Slingsby (HC) 3p
Temple Bar Inv Tst 4.2% Pf 2.1p
United Biscuits 3.5p

**■ THURSDAY JANUARY 4**
Abbey Natl Stlg Cap 10⅛% Sb Gtd Bd '23 £1012.50
Do 11½% Sb Gtd Bd '17 £1150.0
Adam & Harvey 11p
African Dev Bank 11⅛% Ln '10 £5.5625
Banner Homes 0.4p
Bourne End 0.55p
Brown (N) 1.8p
Business Post 3p
Cedardata 1.31p
Cradlay Grp 1.26p
Five Oaks Invs 7% Cm 2nd Pf 4.9p
Frost 3.2p
Great Portland Estates 2.9p
Hicking Pentecost 2.1p
Housing Fin 9⅝% Db '25 £4.8125
Kleinwort High inc Tst 2.15p
Land Sec 7.1p
NatWest Bank 12½% Sb Un Ln '04 £6.25
Wardla Storeys 12.25p
Westbury 2p

**■ FRIDAY JANUARY 5**
AG Hldgs 3.5p
APV 1p
Alber Fisher 1.9p
Annuities 2½% £0.625
Annuities 2¾% £0.6875
Armour Tst 1.56p
Baird (Wm) 3.55p
Bank China FRN 1998 $32.90
Bankers Inv Tst 4% Perp Db £2.0
Bank Malbourne FRN 1997 $15.81
Beckamn (A) 1.5p
Blenheim 3.5p
Bradford Prop Tst 3.5p
Brandon Hire 0.75p
Bridon 1.375p
Browning-Ferris $0.17
Burmah Castrol 11p
Centex $0.05
Chinas & Eastern Inv $0.03
Consolidated 2½% £0.625
Cook (Wm) 2.5p
Courtaulds 5% 1st Pf 1.75p
Do 5½% Un Ln 1994/96 £2.75
Croydon 3½5 £1.75
Eastern Transvaal R0.035
Evans of Leeds 0.96p
Friendly Hotels 2.2p
Govett Strategic Inv Tst 4.1p
Hanson 3p
Hartebeestfontein R0.33
Honeysuckle 1.5p
Ideal Hardware 4.2p
Jourdan (T) 0.5p
Met Water Staines Res Cmtee 3% Gtd Db £1.50
Murray Smaller Mkts Tst 1.6p
Peek 1.05p
Premark $0.27
Reckitt & Colman 7.35p
River & Mercantile Tst 2.25p
Schlumberger $0.375
Scottish American Inv 1.26p
Scottish Met Prop 1.5p
Sims Food 1p
Smiths Inds 9.35p
Staveley Inds 2.3p
Stoddard Sekers 0.375p
Symonds Eng 0.5p
Time Products 3.5p
Unigate 6.65p
Value & Income Tst 2.2p
Yule Catto 11½% Cm Pf 98/03 5.75p
Zandpan R0.05

**■ SATURDAY JANUARY 6**
Blue Circle 6¼% Un Ln £3.125
British Assets Tst 1.27p
Colman (EA) Invs 8% Un Ln 91/96 £4.0
Scottish National Tst 2.7p
Whitbread 7¾% Un Ln 96/2000 £3.875
Do 10½% Un Ln 2000/05 £5.25

**■ SUNDAY JANUARY 7**
Alld Domecq Fin 6¾% Gtd Sb Bd '08 £33.75

## UK COMPANIES

**■ TOMORROW**
BOARD MEETINGS:
Final:
**Throgmorton Pfd Inc Tst**

**■ THURSDAY JANUARY 4**
BOARD MEETINGS:
Final:
**Warner Estates**
Interims: **Abbey Druck**

**■ FRIDAY JANUARY 5**
COMPANY MEETINGS:
**MMT Computing**, 14, Angel Gate, City Road, E.C., 2.00

*Company meetings are annual general meetings unless otherwise stated.*

Please note:
Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

ARTS

# OPENINGS

**AMSTERDAM**
Mstislav Rostropovich (left) joins the Royal Concertgebouw Orchestra on Friday for a series of six concerts as cellist and conductor. His programmes include symphonies by Tchaikovsky, Shostakovich, Schnittke and Galina Ostwolskaja, and a recital of Bach cello suites. He will also accompany solo performances by three other Russian virtuosi – Yuri Bashmet, Natalia Gutman and Gidon Kremer.

**WASHINGTON**
Hans Krasa's opera "Betrothal in a Dream" had an acclaimed premiere in Prague under George Szell's baton in 1933, but – along with other music by Jewish composers, it was suppressed by the Nazis. Krasa was gassed in Auschwitz, and his opera lay forgotten until Israel Yinon unearthed the score and conducted a staging in Prague two years ago. Yinon supervises the US premiere on Saturday at the Kennedy Center's Eisenhower Theater.

**NEW YORK**
Janacek's "The Makropoulos Case" will have its first performance at the Metropolitan Opera on Friday, in a new production starring Jessye Norman as the 300-year old Emilia Marty. Staged by Elijah Moshinsky and conducted by David Robertson, the opera will be sung in English with a cast including Graham Clark, Hakan Hagegard and Donald McIntyre.

**LEEDS**
"Peter Pan" returns to the stage on Thursday, with David Bamber (left) as Captain Hook, at the West Yorkshire Playhouse. The director is Matthew Warchus, whose 1995 stagings included the National Theatre's "Volpone".

**GLASGOW**
A much-expanded Celtic Connections festival opens at the Royal Concert Hall on Thursday with a gala concert of jigs and jazz. The following two weeks bring a lively mix of traditional music, folk songs, ceilidhs and other forms of Gaelic culture from Scotland and Ireland.

**LONDON**
Cheek by Jowl brings its production of "The Duchess of Malfi" to London, opening tonight at Wyndham's Theatre. Anastasia Hille (below with George Anton) plays the title role.

# Man of music with period appeal

**Andrew Clark talks to the conductor who challenges our assumptions and opens our ears to the past**

This looks like Roger Norrington's year. He opens and closes it in Salzburg, conducting the Vienna Philharmonic there later this month and returning in December to rehearse Mozart's *Mitridate* for the 1997 festival. In between there will be Berlioz with the London Philharmonic, Dvorak in Boston, Henze in Basle, Elgar in Washington, Beethoven in Chicago, Nicholas Maw at the Proms and Brahms in Vienna – not forgetting three European tours with his own period-instrument orchestra, the London Classical Players.

Did someone say Norrington was a period specialist? If so, the period ranges pretty wide – from 1600 to 2000. That distinguishes him from most early music pioneers. And he uses the same forensic skills to unravel Vaughan Williams and Pärt as he does for Beethoven and Bruckner – which sets him apart from other high-profile conductors. No British musician has done more to challenge our assumptions or open our ears to the past. At 61, Roger Norrington fully deserves the international limelight.

He clearly enjoys it. The early music revolution, he says, is not about period instruments or a particular type of repertoire. "It's a habit of mind. Even if I didn't know anything about early music, I would still be the conductor I am now. I just can't look at a piece of music without taking it back into the garage and stripping it down, finding what the hell is going on and putting it back together again. Vroom!"

Earthy enthusiasm has always been a Norrington hallmark. It inspired his singers and orchestra at Kent Opera, where his 13 years as music director gave him a vast repertory and an intimate understanding of how a company works. Enthusiasm has also been the key to his "Experience" weekends, where he and the LCP discuss, rehearse and perform a composer's work to the amused enlightenment of all. And it continues to permeate his day-to-day contact with conventional orchestras.

"You don't often come across that kind of enthusiasm for the way the music is realised," said a member of the Basle Symphony Orchestra after Norrington's latest visit. "His contact with the players is amazingly lively – the orchestra had a great time. He got a humming performance, the music really took off."

Longstanding colleagues say Norrington has mellowed over the years. He has had two operations for cancer and become a father again: his wife, the choreographer Kay Lawrence, and their two-year-old son often travel with him. "But when it comes to the music, he's just as strict and demanding as ever," says an LCP stalwart. "He has an incontrovertible idea of how it should be. His point is that this is real music written by real people, and he gets that 'immediate' element across. He wants to get round the traditional interpretation, demythologise the music, remove the waffle and ballast."

That is one of the reasons why Norrington now enjoys such a high profile outside the UK. Long popular in the US and Italy, he has only recently begun to make his presence felt in the Austro-German heartland. He says CDs have had a proselytising influence – "they're sinking into the subconscious. People there are getting used to the idea that there are things they need to know about. Despite my rough German, the orchestras have been very responsive."

Norrington has not forgotten the UK. A former choral scholar at Cambridge, he lives in Berkshire, organises the LCP's schedule with a couple of helpers and conducts 10 programmes a year with the London Philharmonic. He says he is perfectly happy to work with modern instruments. "If you're changing the score – because many of the published scores are inaccurate – and you change the seating, the tempo, the phrasing, the light and shade, the *Weltonschouung*, it already makes a huge difference. But once they get used to the style, they may hesitantly say 'We're doing everything else, shouldn't we drop the vibrato?' That happened with the LPO, and the result was absolutely marvellous. As they begin to trust you, they realise you're not going to turn up in a gown and mortar board. They see you're a real musician."

Norrington's interest in historically aware performance began in the early 1960s, when he went round the churches of Europe performing Schütz with his own amateur choir. There *was* no Schütz style: he had to invent his own. From there it was but a short step to Bach, Telemann and Handel – and on to Gluck and Haydn, Beethoven and Berlioz, Schubert and Schumann. The journey has now reached Wagner and Bruckner, and the results astonish Norrington as much as they do his admirers.

In his LCP recording of the *Meistersinger* overture, Norrington knocks two to three minutes off the standard performance length. "I keep thinking that with the next thing we do, there won't be quite the same things to discover," he says. "A year ago, we didn't know how Wagner would sound on period instruments. I thought the tempo wouldn't be a big question, it would be a matter of just hearing the same music on these instruments. Then I started my research. In *Ueber das Dirigieren*, Wagner writes that when he conducted the *Meistersinger* overture, it lasted a few seconds over eight minutes. I thought wow! What will it sound like if we do that?"

It was a revelation – less pompous and more humorous than usual, with a spring-in-the-step in the climaxes. There were similar results in Bruckner's Third Symphony, which Norrington conducted at the Linz Bruckner festival last autumn. He opted for the first version – the one Bruckner never heard, with none of the "improvements" carried out by his pupils for later performing versions. And he delved into Bruckner's own recorded comments, which include references to a polka in the finale.

"What do most conductors do? They play it like a dirge. But if Bruckner says it's a polka, it's a polka. So I take it at a steady polka speed, which makes it sound like a dance – and the chorale suddenly becomes singable. All I'm trying to do is put the record straight, to believe in the past. You don't set out to prove people wrong – you start as an innocent, asking questions, and you stumble across these glaringly obvious things."

Norrington says he deals with every composer's music in the same way: "I feel it, I get as much information as I can about it, and then I do it. I want to obey both sides – the heart and the head, they're in constant creative tension. You can have the best intentions to follow what the composer wants, but after a couple of days in rehearsal you may find you're doing it quite differently – and that's how it should be. In the end, feeling is king. It has to be your own vision."

For the past two summers he has conducted at the Rossini festival in Pesaro. Was there much for him to contribute there? "The management was keen I should continue de-cloying Rossini – no high notes at the end, cadenzas as written, decorations with taste, tempi not too slow. He doesn't need to be livened up, but there's more allure in the phrasing than he's given credit for. He's usually hijacked into 19th-century style. But *Zelmira* was written in 1822. He went to Vienna and met Beethoven. These are fully classical works, in the sense that Beethoven is fully classical."

Norrington's journey into the past is far from finished. He visits Prague in May to give the first historically aware performances of Smetana's *Mo Vlast*. Given the chance, he would also take the LCP to the Festspielhaus at Bayreuth – "the right orchestra in the right hall". He wants to play Tchaikovsky in St Petersburg, to do an "Experience" weekend on Berg, and to conduct *Lulu*, *Les Troyens* and *Meistersinger* in the opera house. He dreams of reviving the Early Opera Project, with which he toured Monteverdi's *Orfeo* in Italy in the 1980s. "Historical staging is in the same state as early music was in 1960. The material is all there. It just needs a mad entrepreneur with the right theatre."

Norrington admits that much of what he does is guess-work: it is a hazard of the road he has chosen to take. He may go wildly wrong at times – that is the result of his risk-taking – but none of his performances has ever been dull or routine. Long may it stay that way.

### THE NORRINGTON EXPERIENCE

| | |
|---|---|
| 1934 | Born March 16 at Oxford. |
| 1954-7 | Choral scholar at Cambridge. |
| 1962 | Founded Schütz Choir. |
| 1969-82 | Conducted more than 30 operas, from Monteverdi to Tippett, as music director of Kent Opera. |
| 1978 | Formed London Classical Players, followed in 1984 by Early Opera Project. |
| 1985 | Haydn Experience, first of exploratory composer-weekends. |
| 1986 | EMI contract led to his recording all Beethoven's symphonies and much else on period instruments. Debut with Royal Opera. |
| 1990 | Appointed CBE. |
| 1996 | Debut with Vienna Philharmonic Orchestra. |

## Theatre

# Tales from Arabia

**There is no better place to tell a spell-binding story than in the theatre, especially around Christmas, when we are at our most childlike. This is the motivation behind Battersea Arts Centre's ambitious current programme "Telling Tales". Alongside new Christian fables and fresh glosses on the European tales of the Brothers Grimm, it is refreshing to experience the contrasting oral tradition of Persia: *Alf Layloh Wo Laylah – Arabion Nights: The Tales of Sheherazade*.**

**The excitement starts when you enter the modest studio to find it re-formed. We sit cross-legged in-the-round, raised above the courtyard arcade beneath, peering into a shimmering arena which transforms from king's bedroom to bustling bazaar, the banks of the Nile and the plains between Cairo and Basra in the tiniest flicker of our mind's eye. "This hot land called Egypt" is conjured from nothing more than a fistful of sand draining through a woman's fingers. Michael Gordon's direction and Liz Cooke's design create a compelling environment for their dedicated company of ten focused performers. "Listen," they command: "Listen."**

**It is the whim of King Shahrayar to execute his virgin brides after only one night, as a means of purging his kingdom of unfaithful Woman. He scapegoats them because of his own self-loathing: he murdered his first queen in a fit of ill-founded jealousy. A strong-willed princess, the Sheherazade, is determined to end this needless sacrifice, and volunteers to be his bride, but only after she has told her sister a bedtime story – beautifully in Arabic – which intrigues the King. So she tells him more.**

**The stories selected by the company are not of the Boys Own "Ali Baba and the Forty Thieves" variety, but all craftily develop the proto-feminist theme. Each tale has jealous husbands wrongfully murdering their wives for imagined infidelity, or women enduring sex and childbirth, and even broach pre-ordained marriage. This interpretation of the exotic Arabic world of the Middle Ages as one riddled with miscarriages of natural justice against women, pursues a clear agenda, but not one which is worn on the sumptuous sleeves of the women. The stories are elliptical, graceful and enchanting.**

**There are stories within stories, tales chasing their own tales, richly interwoven like a magic carpet. The 75 minutes of storytelling does not only reinvigorate a moribund king, but revivifies the wider audience. Suitable for older children, it could run for 1001 nights.**

**Simon Reade**

**At the BAC, London until January 7 (0171-223 2223).**

# INTERNATIONAL ARTS GUIDE

## ■ AMSTERDAM

**CONCERT**
**Concertgebouw**
Tel: 31-20-5730573
● Vladimir Sharno: the pianist performs works by Schubert, Beethoven and Liszt; 2.15pm; Jan 7

## ■ BERLIN

**DANCE**
**Staatsoper unter den Linden**
Tel: 49-30-2082861
● The Sleeping Beauty: a choreography by Nureyev after Petipa to music by Tchaikovsky, performed by the Ballett unter den Linden; 7pm; Jan 3
**OPERA & OPERETTA**
**Deutsche Oper Berlin**
Tel: 49-30-3438401
● Martha oder Der Markt zu Richmond: by Von Flotow. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Amanda Halgrimson, Camille Capasso, Friedrich Molsberger, Herbert Lippert and Manfred Röhrl; 7.30pm; Jan 3, 9
**Staatsoper unter den Linden**
Tel: 49-30-2082861
● Der Fliegende Holländer: by Wagner. Conducted by Simone Young and performed by the Staatsoper unter den Linden. Soloists include Falk Struckmann, Siegfried Vogel and Ulla Gustafsson; 7.30pm; Jan 6

## ■ BOSTON

**EXHIBITION**
**Museum of Fine Arts**
Tel: 1-617-267-9300
● Impressions of France: Monet, Renoir, Pissarro and their Rivals: this exhibition of approximately 90 works examines the nature of French landscape painting compared with paintings shown in the Paris Salon in the latter part of tha 19th century. The Impressionist component includes landscape paintings by Monet, Renoir, Gauguin, Sisley, Pissarro and Cézanne. The Salon is represented by such artists as Corot, Daubigny, Chintreuil and Boudin; to Jan 14

## ■ CHICAGO

**OPERA & OPERETTA**
**Civic Opera House & Civic Theatre**
Tel: 1-312-332-2244
● Don Giovanni: by Mozart. Conducted by Yakov Kreizberg and performed by the Lyric Opera of Chicago. Soloists include James Morris, Lucio Gallo, Carol Vaness and Andrea Rost; 7.30pm; Jan 4, 6

## ■ COLOGNE

**OPERA & OPERETTA**
**Opernhaus** Tel: 49-221-2218240
● Eugena Onegin: by Tchaikovsky. Conducted by John Fiore and performed by the Oper Köln. Soloists include Andrea Andonian and Ute Döring; 7.30pm; Jan 5

## ■ DUBLIN

**CONCERT**
**National Concert Hall - Geoláras Náisiúnta** Tel: 353-1-6711533
● National Symphony Orchestra: with conductor Stefan Sanderling and pianist Grigory Sokolov perform Tchaikovsky's "Piano Concerto No.1", Rimsky-Korsakov'a "The Snow Maiden" and Dvorák's "Symphony No.8"; 8pm; Jan 5

## ■ FRANKFURT

**OPERA & OPERETTA**
**Städtische Bühnen - Oper, Ballett, Theater** Tel: 49-69-2123744
● Samson et Dalila: by Saint-Saëns. Conducted by Sylvain Cambreling and performed by the Oper Frankfurt. Soloists include Margit Neubauer, Hubert Delamboye and Philippe Rouillon; 8pm; Jan 3, 5, 7
**THEATRE**
**Städtische Bühnen - Oper, Ballett, Theater** Tel: 49-69-2123744
● Heldenplatz: by Bernhard. Directed by Peter Eschberg, starring Peter Lerchbaumer and Gabriele Köstler; 7.30pm; Jan 3

## ■ INDIANAPOLIS

**CONCERT**
**Warren Performing Arts Center**
Tel: 1-317-898-8061
● Indianapolis Symphony Orchestra: with conductor Erich Kunzel, vocalist Judy Kaye and the Indianapolis Symphonic Choir in a programme celebrating the 100th anniversary of tha birthday of Oscar Hammerstein. The programme includes selections from "Show Boat", "Oklahoma!", "Carousel", "South Pacific", "The Sound of Music" and other musicals; 8pm; Jan 5, 6, 7 (7.30pm)

## ■ LONDON

**CONCERT**
**Wigmore Hall** Tel: 44-171-9352141
● Angelika Kirchschlager: accompanied by pianist Helmut Deutsch. Tha mezzo-soprano performs songs by Brahms, R. Schumann, Korngold, Wolf and Schubert; 7.30pm; Jan 4
**DANCE**
**Royal Opera House - Covent Garden** Tel: 44-171-3044000
● Mr Worldly Wise: a full-evening, three-act ballet, choreographed by Twyla Tharp to music by Rossini, performed by the Royal Ballet; 7.30pm; Jan 3, 4
**EXHIBITION**
**Christie's** Tel: 44-171-8399060
● Brazil through European Eyes: Brazil, as observed by European travellers in the 17th, 18th and 19th centuries, is the subject of this exhibition. The display includes paintings, watercolours and prints as well as a series of tapestries woven by the Gobelin factory in the 18th century; from Jan 5 to Jan 26
**THEATRE**
**Olivier Theatre** Tel: 44-171-9282252
● Volpone: by Jonson. Directed by Matthew Warchus, starring Michael Gambon and Simon Russell Beale; 7.15pm; Jan 5, 6 (also 2pm), 8, 9 (also 2pm)
**Royal Albert Hall**
Tel: 44-171-5823861
● Saltimbanco: performance by the Cirque du Soleil. The show, which has been travelling across the continent for three years, offers a combination of theatre, dance, acrobatics and music; 7.45pm, Sat & Sun also 2.30pm; from Jan 5 to Jan 14

## ■ MUNICH

**CONCERT**
**Philharmonie im Gasteig**
Tel: 49-89-48098506
● Symphoniekonzert des Bayerischen Rundfunks: with conductor Lorin Maazel, violinist Andreas Röhn, viola-player Oscar Lysy and cellist Wen-Sinn Yang perform R. Schumann's "Symphony No.3" and R. Strauss' "Don Quixote"; 8.05pm; Jan 5, 6
**OPERA & OPERETTA**
**Nationaltheater**
Tel: 49-89-21851920
● Simon Boccanegra: by Verdi. Conducted by Fabio Luisi and performed by the Bayerische Staatsoper. Soloists include Paolo Gavanelli, Amanda Roocroft, Ulrike Schneider, Jan-Hendrik Rootering and Sergej Larin; 7pm; Jan 8

## ■ NEW YORK

**DANCE**
**Joyce Theater** Tel: 1-212-691-9740
● Altogether Different: a series of performances by seven dance companies, including Irene Hultman Dance (Jan 3, 5, 7), The Kevin Wynn Collection (Jan 4, 7, 11) and the Douglas Elkins Dance Company (Jan 6, 12, 13); 8pm, Jan 7, 14: 7.30pm, Jan 21: 2pm; from Jan 3 to Jan 21 (not Mon)
**THEATRE**
**Roundabout Theatre**
Tel: 1-212-575-3030
● The Father: by Strindberg, in a new adaptation by Richard Nelson. Directed by Clifford Williams and performed by the Roundabout Theatre Company. The cast includes Frank Langella and Gail Strickland; 7pm, Wed & Sat also 2pm; to Feb 18

## ■ PARIS

**CONCERT**
**Salle Pleyel** Tel: 33-1 45 61 53 00
● Orchestre Philharmonique de Radio France: with conductor Marek Janowski perform works by Beethoven, Murail and R. Strauss; 8pm; Jan 5
**THEATRE**
**Comédie Française, Salle Richelieu** Tel: 33-1 40 15 00 15
● Phèdre: by Racine. Directed by Anne Delbée, starring Catherine Samie, François Beaulieu, Martine Chevallier and Albert Aveline; 8.30pm; Jan 4, 6, 8

## ■ VIENNA

**OPERA & OPERETTA**
**Wiener Staatsoper**
Tel: 43-1-514442960
● Die Fledermaus: by J. Strauss. Conducted by Leopold Hager and performed by the Wiener Staatsoper. Soloists include Silvana Dussmann, Edith Lienbacher, Gabriele Sima and Siegfried Jerusalem; 7pm; Jan 4

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*Financial Times Business Tonight*

## COMMENT & ANALYSIS

# An absence of inflation

### The feelgood factor is set to remain elusive in 1996, say Martin Weale and Garry Young

By most measures, 1995 was a good year for the UK economy. Inflation remained subdued, output grew by more than 2.5 per cent, unemployment declined by more than 200,000 and government borrowing fell, albeit by less than was expected at the beginning of the year. In addition, Mr Kenneth Clarke, the chancellor, was able to take a penny off the basic rate of income tax and cut interest rates by a quarter of 1 percentage point.

This very favourable mix of growth and inflation is rare by British historical standards and, while we think it likely to continue, there are risks that the economy will not be as successful in 1996.

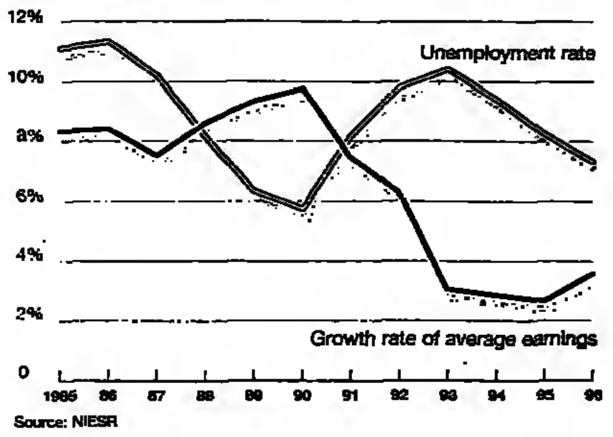
The most striking aspect of the present economic situation is the virtual absence of domestically generated inflation at a time of relatively fast growth and falling unemployment. This is partly a reflection of the extent of disinflationary pressure in the UK labour market. Since the peak in unemployment in 1993, wage increases have shown no sign of picking up and real wages have scarcely grown. This means that the benefits of increased productivity have been appropriated into profit margins. These have risen substantially; profits as a proportion of gross domestic product – at 36 per cent in 1994 – are higher than in the early 1970s.

One important question in present circumstances is whether the surprising lack of growth in wage rates is evidence – as claimed by the Treasury – that the sustainable rate of unemployment has fallen. In the 1980s and early 1990s it seemed that this figure was about 8 per cent of the labour force. Certainly, when the unemployment rate fell to 5.5 per cent by 1990, there was a sharp acceleration in inflation which was only squeezed out by the rise in unemployment during the last recession.

Assuming productivity growth of 2 per cent a year, the rate of increase in wages could probably rise from its existing level of 3.25 per cent to 4.5 per cent per annum and still be consistent with annual inflation of 2.5 per cent and very high profit margins. This suggests that unemployment at 8 per cent is still above its sustainable rate.

It would be premature, however, to assume from this that the sustainable rate of unemployment has indeed fallen.

UK




Unit labour costs picked up noticeably in 1995 and in manufacturing were growing in October at an annual rate of 4 per cent. This probably reflects the stagnation of productivity associated with the slowdown in output. But it may be an early indication that unemployment is reaching its sustainable level.

If the sustainable unemployment rate has fallen, it will be possible for output to grow for some time to come at more than its underlying trend rate without generating inflationary pressure. This does not guarantee that the chancellor's inflation target of 2.5 per cent by the end of the present parliament will be met – the weakness of domestic prices has been offset by increases in import prices arising from sterling's depreciation of close to 7 per cent through 1995.

We expect the underlying inflation rate by the end of 1996 to be slightly over 3 per cent. A better way of putting this is to say that we think there is only a 40 per cent chance of meeting the inflation target. There is also a risk that inflation will be substantially higher if faster growth in import prices feeds through to domestic prices.

This assessment depends on the outlook for demand, which appears to have stalled in the second half of 1995, leading to fears that the overall rate of growth in 1996 will be considerably slower. This time last year the National Institute forecast growth of 2.7 per cent for 1995, and this is likely to be very close to the eventual out-turn. For 1996, we are predicting growth of 2.4 per cent, much lower than the Treasury's forecast of 3 per cent.

Our forecast assumes that continued weakness in domestic demand will be offset by higher export demand, helped by the fall in sterling in 1995. Individual monthly figures are erratic, but it was gratifying to see higher exports in November as an early indication of this trend.

We do not expect much of a feelgood factor to develop in 1996. This is partly due to the very slow growth in wages.

There is at present much discussion about whether the economy will be lifted by a surge in consumer spending, with the suggestion that spending is depressed by consumer gloom inspired by fears about employment prospects. But the truth is that consumers are behaving perfectly normally. It looks as though they will have saved about 9 per cent of their income in 1995 and we are expecting a similar figure for 1996. This is lower than in any year since 1971, except during the boom period of 1986 to 1990 – and we doubt consumers are ready for a binge like that of the late 1980s.

In spite of the pause in growth, we expect a continuing fall in claimant unemployment to about 1.9m, or just under 7 per cent of the labour force. This is partly due to changes in the administration of benefits. While we expect some acceleration in wage growth, this will be consistent with a downwards drift in the inflation rate as the rate of increase in import prices subsides. Profit margins will stop rising, but there will be no great pressure on them.

The main risk of this forecast is that demand will be weaker than expected as a consequence of companies adjusting to an unintended build-up of stocks, tight fiscal policy and possible weakness in demand for British exports. In this event, inflationary pressure should weaken further and we would expect to see cuts in interest rates to maintain the economy's momentum as the next general election approaches.

In the longer term, we expect these favourable trends to continue. The improved picture in the labour market will be backed up by slightly faster productivity growth as the economy starts to benefit from the recent expansion of higher education and, we hope, the more stable macroeconomic environment established since sterling left the European exchange rate mechanism. We can see the growth rate accelerating to 2.8 per cent and unemployment falling to 1.2m. This would not exactly be an economic miracle, but it would at least make a pleasant change from the years of stop-go.

*Martin Weale is director of the National Institute of Economic and Social Research, a UK research institute, and a member of the Treasury's panel of independent economic forecasters. Garry Young is a research fellow at the institute.*

# Neither boom nor bust

### Conditions are not right for sharply lower US interest rates, says Stephen S. Roach

The financial markets always want more of a good thing. And that seems to be the case in looking to 1996. It is fashionable to worry that the US economy is soft and getting softer, and that inflation is heading dramatically lower. In such an environment, the Federal Reserve is expected to reduce short-term interest rates aggressively. Moreover, with the budget deal of a lifetime finally thought to be at hand, most forecasters expect a dramatic further rally in the bond market. Needless to say, such a scenario hardly poses a threat to the glorious bull market of 1995.

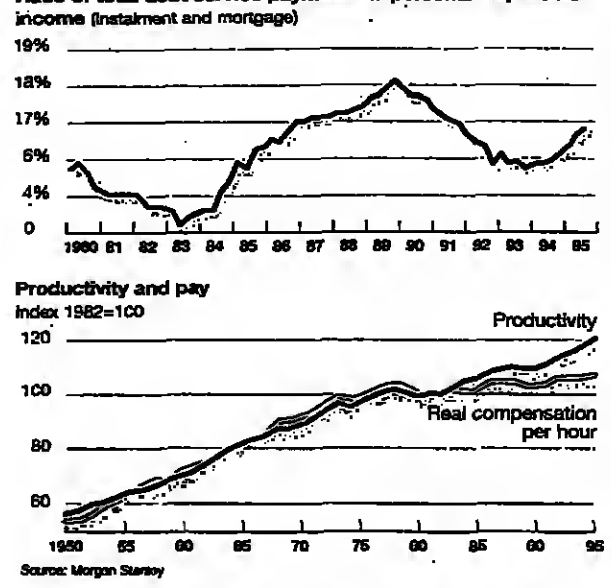
Our prognosis for the US economy in 1996 is at odds with many of these presumptions. I expect neither a boom nor a bust. Real gross domestic product is likely to expand in a 2.5 per cent to 3 per cent range – essentially in line with what I believe to be the US economy's underlying long-term growth potential. The case for upside growth surprises is relatively straightforward. It is based on solid support from three important macroeconomic forces: real income generation (at present running above trend at 3.7 per cent); interest rates (which are near historic lows); and the currency (which is vastly undervalued).

In such a constructive environment, I expect the US economy to show surprisingly broad-based gains in 1996. With mortgage interest rates down about 200 basis points over the past year, the turnround in the residential construction sector should continue well into the new year. And there should be no let-up in US business's record-setting boom in capital spending.

This is a structural phenomenon – triggered mainly by spectacular productivity breakthroughs – that should continue to be surprisingly immune to the whims of the business cycle.

Upside surprises in the export sector can also be expected, reflecting the combined effects of a supercompetitive US economy and more diverse trade flows. The strong impetus for export growth in 1995 – with unit volume growth accelerating from 4.8 per cent in the first quarter to 10.6 per cent in the third – stands in sharp contrast to widespread fears that there will be an export collapse in a sluggish global economy.

US




The good news is that the US is less dependent on its traditional trading partners: sales to Europe and Japan have fallen to 34 per cent of overall US exports, down sharply from 42 per cent at the end of 1990.

Finally, reports of the demise of the American consumer are vastly exaggerated. With consumption well supported by income generation, I do not share the widespread conviction that households are being dragged down by excess debts. The ratio of annual debt servicing expenses to income stands at present at 16.8 per cent, well below the highs hit in the latter half of the 1980s. While I do not expect a consumer buying binge, the forecast of 2.5 per cent growth in real consumption through 1996 is sufficient to account for over 1.5 percentage points of real GDP growth.

The inflation prognosis is particularly intriguing. While I continue to believe the cost-efficient, productivity-led US recovery remains intact, I am now of the view that the inflation rate is slowly moving up from its cyclical lows. The consumer price index rose 2.9 per cent in 1995, up 0.3 percentage points from the low of 1994, and a little more acceleration in 1996 is expected, to an annual rate of 3.2 per cent.

I do not share the view that price stability is now at hand. The bulk of the disinflation of the 1990s has been a by-product of an extraordinary compression of labour costs. With productivity and corporate profitability surging, with the unemployment rate at 5.6 per cent, and with real compensation virtually stagnant for over a decade, I do not accept the notion that a submissive workforce has no choice but to capitulate further on wages.

In spite of the supposed threat of the dollar-a-day Chinese worker, this strain of productivity enhancement has now gone far enough. The days of asking the labour force to keep sacrificing for the noble cause of disinflation appear to be largely over. The risk of a backlash from workers is a growing concern – one that might have an important impact on the sociology, politics and economics of the US for years to come.

As for the Fed, it is hard to accept the widespread conviction that an aggressive monetary easing is now at hand. Given the outlook for the economy and inflation, the economy for a further dramatic easing just is not there. Granted, the central bank may offer a token easing in the aftermath of a budget accord. But if market expectations of sharply lower short-term interest rates were realised, the Fed would have to throw its traditional caution to the wind. If it takes its commitment to price stability seriously, and I believe it does, it is difficult to imagine the Fed turning away from the restrictive policy bias that worked so well in the 1980s.

The budget is obviously the wild card. The problem is that it is still business as usual in Washington. The best we are likely to see is a plan based on back-loaded spending cuts, front-loaded tax cuts, immunity for social security and dubious economic assumptions (for example, that the perfect path of trend growth, low inflation and declining interest rates continues forever). I have come to the reluctant conclusion that the same creative mathematicians who gave us Gramm-Rudman I and II and the great budget accord of 1990 are hard at work today. Credible deficit reduction remains a dream, not a certainty.

Adding it all up, it is hard to be thrilled about US Treasury bonds. Everything good is just about priced into the market. On the chance that a budget deal is struck – even if it is a classic smoke-and-mirrors compromise – a final bull run to bond yields of 5¼ per cent is possible.

But as reality sinks in, and the economy and inflation fail to conform to market hopes, I continue to believe that the next big move in bonds is back towards an equilibrium level of 7 per cent. I expect such a correction to take place by mid-year, at the latest.

*The author is chief economist and director of global economic analysis at Morgan Stanley*



## ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

### Ways to view support for steelmaking plant

*From Mr George Becker.*

Sir, In the US we have been reading with interest the reports that British Steel is seeking to close an Irish steel plant on account of subsidies that the Irish government is to provide.

In the US British Steel is seeking one of the biggest subsidies from the taxpayer ever recorded in order to operate a steel plant in Alabama, which British Steel is proposing to build in partnership with an American and a Japanese company.

Support worth $350m is being sought from – and granted by – the state legislature of Alabama in order to persuade British Steel and its two partners to open the steel plant in the state. If built, the plant will directly threaten the jobs of at least 3,500 steelworkers in other parts of the country.

Without entering into the merits of the Irish steel plant's case, we find it puzzling that British Steel is so hostile to subsidies in Europe and so ravenous for them in the US.

Transatlantic trade and co-operation can not be built on this kind of tilted playing field.

George Becker,
international president,
United Steelworkers of America,
Five Gateway Centre,
Pittsburgh, PA 15222, US

### Obstacles facing the spread of democracy

*From Ms Philippa Rann.*

Sir, Martin Wolf's piece on whether democracies are growing in number and influence, and to what extent democracies are less warlike than autocracies ("Mightier than the sword", December 28) reminds me of discussions 30 years ago on whether history moves inexorably in the direction of communism, and to what extent communist governments would decrease international tensions.

There are indeed powerful "forces that are driving countries towards representative political institutions", but there are equally powerful forces undermining democracies from within. Democracies have been voted out, and there is no evidence that the increasing gap between rich and poor will not weaken many democracies.

It is curious that Protestant societies were the first to nourish democratic institutions, and that no non-Protestant society has sustained democracy for longer than 70 years. There is nothing automatic about progress, and nothing inexorable about the direction in which history will go: that will depend on the choices each of us makes.

Philippa Rann,
Advance: Management Training,
58 Ridgway Road,
Farnham,
Surrey GU9 8NS, UK

### Canadian people caught in the trapper's snare

*From Ms Carla Bennett.*

Sir, Thank you for Bernard Simon's comprehensive article "Hunting for a kinder kill", (December 13). The trap research compound near Vegreville is a ploy that illustrates how far the Canadian government and the fur industry will go to preserve this barbaric industry.

The fur industry professes to champion Canadian native people, but it has been the most destructive force in their history. It has exploited them, their culture and their way of life. Native people do not process, sell or store furs but are at the bottom of the fur industry chain.

Because of the sympathy people feel towards the plight of the Canadian native people, the Canadian government and the fur industry are promoting the myth that trapping is culturally and economically central to the native people.

Fewer than 50 per cent of native homes are fully serviced with sewerage and water, native infant mortality is 60 per cent higher than the average among other Canadians, and 70 per cent of natives have not had a high school education.

Fur trapping has not and will not relieve these problems. It will perpetuate them.

Carla Bennett,
senior writer,
People for the Ethical Treatment of Animals,
PO Box 42516,
Washington DC, US

### Brewing up controversy

*From Mr Joe Grahame.*

Sir, I feel that your front page article "Che beer leaves Cubans foaming" (December 22) is unfair. The project was created to help Cuba export beer, modernise its brewing sector and draw attention to the US's embargo of the island.

Che beer's success is due to its distinctive taste and CCC's effective marketing campaign. Unfortunately, some people have chosen to undermine our efforts by stirring up controversy.

Joe Grahame,
Corporacion Cerveza (Europe),
Bonverie House,
154 Fleet Street,
London EC4A 2DQ, UK

### Diagnosing middle-class angst

*From Prof Peter Curwen.*

Sir, In his otherwise excellent article on middle-class insecurity ("Bang go the great expectations", December 27), John Plender is surely incorrect in claiming that an occupational pension is "not an asset at all".

For the great majority of members of occupational pension schemes, the pension is tied to the salary earned during the years immediately prior to retirement and is unaffected by whether or not the company pays its full contribution in every year.

It is certainly true that the benefits could be improved were pension-fund surpluses to be used for that purpose, but the basic payment is secure and does indeed form a substantial asset for the pensioner.

The whole point about personal pensions, which yield direct ownership rights, is that whereas the benefits are not tied to salary, and may be much greater than under an occupational scheme, the risk element is also much greater and hence the pensioner cannot rely upon the size of the asset.

It is most unlikely that members of occupational pension schemes are overly concerned about being "disenfranchised", although they most certainly detest those "bosses" who manipulate their own pensions for personal advantage.

Insofar that "frustrated expectations" are the cause of "middle-class angst", it is not negative equity which is of direct concern since, as John Plender notes, this has affected relatively few middle-class households, but rather the possibility of falling house prices.

This is a very new phenomenon, and often accompanied by great difficulty in achieving a sale, but it has no parallel in respect of occupational pensions since their value is unknown prior to retirement.

Professor Peter Curwen,
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Sheffield S1 2LX, UK

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Tuesday January 2 1996

# Italy and the EU presidency

For the fourth time in a row, the six months' presidency of the European Union has fallen to a member state whose government is severely distracted by domestic difficulties. It seems to be becoming a bad habit. First there was Germany, with a general election in mid-presidency back in 1994. Then there was France, with presidential elections last May. The Spanish government in the past six months managed to postpone its demise in order to complete its EU chairmanship, in spite of losing its parliamentary majority.

Now Italy is supposed to take the chair, not even sure if it has a government. Mr Lamberto Dini offered his resignation on Saturday after completing his limited mandate. President Oscar Luigi Scalfaro wants him to stay on, but he is leaving it to the fractious Italian parliament to decide. It hardly makes for firm leadership and a clear agenda for Europe.

These four Euro-enthusiastic governments were supposed to co-ordinate their plans for the two-year period. They intended to lay the groundwork for a clear-sighted and coherent inter-governmental conference this year, which would mark another important step towards the goal of European political union. Instead, the EU is stumbling towards that target in a familiar state of muddle.

## Spanish achievements

Admittedly, Mr Felipe González's government in Spain achieved rather more in the past six months than one might have expected from its political weakness at home. It completed preparations for the IGC, albeit with more modest ambitions than committed integrationists would like. It persuaded the other 14 member states to agree a blueprint for the launch of the single currency in 1999. It finalised a programme to reinforce the fragile relationship between the EU and US. And it organised an impressive gathering of Mediterranean states to cement better co-operation between Europe, the middle east and north Africa. Not bad for a lame-duck administration.

The challenge for Mr Dini, or any other head of an Italian government, is to keep that good work going. At least he does not appear over-ambitious. Italy has not tabled any heavy agenda of national priorities, as other member states are sometimes tempted to do. A successful launch to the IGC at the end of March is one priority; agreement on a reconstruction plan for Bosnia is another. The former should be a formality, but the latter could be a very difficult negotiation: the European Union must be generous if it wants the peace initiative in Bosnia to succeed, but every member state faces tough domestic budget constraints, limiting the room for manoeuvre.

## Difficult issues

There are always other difficult issues on the EU agenda which require clear leadership from the presidency. In the next six months those include the plans to liberalise the EU energy market; reform of the Tacis aid programme for countries of the former Soviet Union; and reform of the EU wine market. There is also strong German pressure for agreement on a stabilisation package to regulate the behaviour of member states after creation of economic and monetary union. These are all issues on which Italy has clear national interests, and on which a weak government in Rome may find it difficult to compromise, let alone negotiate a deal.

A strong Italian government is out of the question for the foreseeable future. At this moment, early elections would not solve the problem: under the present electoral laws, they are unlikely to produce a result much different from the present stalemate. President Scalfaro is right to urge the main political factions to stop bickering and agree on a programme of essential constitutional reforms. That could be enacted by a broad-based cross-party coalition, as Mr Silvio Berlusconi, the former prime minister, appears to favour – though this seems somewhat unrealistic.

Alternatively, Mr Dini could be asked to serve on for another six months, dedicated to the EU presidency and to securing the constitutional reforms. That would be an acceptable compromise, in the interests of Italy and Europe.

# When politics replaces policy

Britain's general election campaign is under way in earnest. The defection from the Conservatives to the Liberal Democrats of Miss Emma Nicholson could not have been a more potent reminder of the fragility of Mr John Major's government. The prime minister's parliamentary majority is now down, in effect, to three. Further deaths or defections could soon eliminate it entirely.

Mr Major appears determined to defer the election until the last possible date in the spring of 1997, relying if necessary on the support of the Ulster Unionists to sustain him in any vote of confidence. Privately, opposition leaders admit that he may well succeed in that objective. But, amid rumours of further defections, ministers equally are obliged to acknowledge they can no longer be certain of the parliamentary arithmetic. An autumn election is now a real possibility if not yet a probability.

The prime minister would be wise to pay close attention to the message of Miss Nicholson's defection. Since his leadership victory last summer, Mr Major has been too anxious to appease his opponents by speaking the language of the Eurosceptic right of the Tory party. Whatever her personal motives for joining Mr Paddy Ashdown's Liberal Democrats, Miss Nicholson's charge that the government has been deserting the political centre ground finds a dangerous echo among voters.

Rhetoric calculated to appeal to the more hardline Conservative activists will not recover for Mr Major the support of the less committed voters who will decide the outcome of the election. Mr Blair has learned one of the golden rules of British politics – elections are not won from the extremes of left or right but from the centre.

## Gruelling business

Either way, the looming campaign promises to be a gruelling and unedifying business. Politics, it seems, leaves little room these days for policy. The normal business of government has been suspended. Mr Major's legislative programme is designed above all to minimise controversy within his own party and to highlight areas of difference with Labour. Mr Tony Blair meanwhile concentrates on inflicting tactical defeats on the government at Westminster. Those expecting Labour to unfold a detailed blueprint for government are likely to be disappointed.

As they make their promises and level their charges in the scramble for votes, however, Messrs Major, Blair and Ashdown should pause for a moment to reflect on a more worrying feature of British political life. Politicians of all parties have rarely been held in lower public esteem. They have themselves, mostly, to blame.

## Wider developments

It is true that wider developments have contributed to a general weakening of faith in the ability of politicians to "solve" national problems. Global markets have delineated more clearly the limits of economic independence. The necessary sharing of sovereignty in Europe has robbed Westminster of other pretensions. But to acknowledge such trends is not to exonerate the politicians.

The important gap is not that between the limits imposed by the harsh realities of modern life and the unreasonable demands of the voters. The real disillusion stems from the gulf between promises and performance. If politicians more readily acknowledged the constraints, the voters would be more willing to adjust their expectations. Instead, the parties wittingly exaggerate their power, promising easy solutions to complex problems.

To take the most obvious example: the central debate about the right levels of public spending and taxation is conducted with shameless mendacity. One side promises painless tax cuts, the other perfect public services. The reality is that modest rates of economic growth will allow neither for the constant ratcheting down of income tax rates promised by Mr Major nor the cost-free and comprehensive welfare state pledged by Mr Blair.

It is perhaps too much to expect the politicians to mend their ways so close to an election. But this erosion of trust and confidence in parliament is inimical to good government and dangerously corrosive of democracy. Ultimately, the politicians as well as the voters will be the losers.


# Europe unlocked for dealers

## On the first day of trading under new rules breaking down EU borders, John Gapper and Richard Lapper assess who the winners and losers will be

This morning NatWest Securities will commence trading on the Swedish Stock Exchange from its offices in the City of London. For the first time, the stockbroking arm of the British bank will buy and sell shares in Swedish companies without having to do so through local brokers. "We can sit in London with a screen on our desks, and trade as if we were in Stockholm," says Mr Scott Dobbie, chairman of NatWest Securities.

The ability to trade securities across borders in this way is a product of the European Union's Investment Services Directive (ISD), which takes effect today. The directive aims to give Europe's thousands of broking firms a "passport" to trade anywhere in the Union, and is accompanied by the Capital Adequacy Directive (CAD) which imposes fresh capital requirements.

Progress in implementing the two directives is likely to be slow – by December 31, only seven of the 15 EU states had passed the necessary legislation. But whatever the delays, the changes are happening faster than previous efforts to harmonise banking supervision. "It is far more complex, and it is having to be accomplished in a much shorter time," says Ms Jane Welch, head of legal advice at the UK Securities and Investments Board.

And the impact on Europe's stock exchanges and derivatives markets will be far-reaching. The directives are likely to favour large investment banks and stock exchanges, at the expense of smaller firms and exchanges.

There are two key measures in the Investment Services Directive. The first is that firms will be able to operate in any EU member state, provided they are regulated in one of them. When operating outside their home countries, they will be subject to rules on the conduct of business devised by the local regulators for all banks and brokers.

For the larger banks already operating in more than one EU country, the "passport" rule will reduce costs and ease the regulatory burden. However, the directive is unlikely to make a significant difference to their operations. Although there have been instances of member states imposing strict requirements on foreign banks, most of them have been able to operate where they want. "We have never felt constrained about crossing national borders," says Mr Wilco Jiskoot, senior executive vice-president for merchant banking at ABN Amro, the Dutch bank.

But for smaller firms operating in countries with no regulation for securities traders, the directive will mean being regulated for the first time – together with the accompanying costs, even if they are operating purely in their domestic markets. They are also likely to lose the share of commission and fees they make in carrying out local business for large investment banks. From today smaller brokers will have to find a substitute for such earnings if they are to survive.

The second key measure of the directive is to allow stock exchanges and futures and options markets to trade throughout the EU. With increasing volumes of equity dealing, derivatives business and bond market transactions carried out electronically, this should in effect allow brokers to conduct business from offices located anywhere in Europe.

The effect will be to increase competition between Europe's 32 securities exchanges and 24 derivatives markets. Already, for example, the Deutsche Börse, which runs the German stock and derivatives markets, plans to extend its electronic network to several other countries. Early this year it is opening an access point in London, which will reduce the telecommunications costs for London-based Deutsche Börse members to transact their business directly with Frankfurt.

It is widely expected that many smaller exchanges could fold as these pressures intensify. Mr Gérard Pfauwadel, chairman of the Matif, the Paris-based futures market, expects a wave of restructuring with some derivatives markets disappearing, either through merger or takeover. "It will mean some substantial modification in the landscape of futures and options exchanges in Europe," he says.

Matif is planning to launch an ambitious joint electronic network with the Deutsche Börse and two other French exchanges later this year which would allow traders to deal in French and German equities over the same screens. It would also cover a range of futures and options products. "With the prospect of a single currency it all amounts to a new big bang in Europe as far as the markets are concerned," says Mr Pfauwadel.

One target for European exchanges such as Paris and Frankfurt is likely to be the London Stock Exchange's Seaq-I electronic bulletin board, which marketmakers use to advertise large blocks of European shares for purchase and sale. Already, European bourses which have invested a large amount on modernising their trading and settlement systems have won back dealing business in local equities from Seaq-I.

But many market participants argue that large exchanges – particularly London – are likely to gain rather than lose from the directive. NatWest's strategy of trading increasingly on local exchanges rather than on Seaq-I does not lessen its commitment to its main base in London. Remote trading on overseas exchanges could help London's role as the physical location from which traders operate by electronic means.

Mr Giles Vardey, director of markets development at the London Stock Exchange, argues that remote trading is now "commercially inevitable". Mr Vardey accepts that competition from large exchanges will intensify, but says smaller exchanges could suffer. "Trading power is likely to become concentrated in London, and the directive will hasten this process," he says.

The most immediate effects of Capital Adequacy Directive are likely to be felt by the investment banks. They will be required for the first time to allocate capital to cover risks of losses through adverse movements in the markets for shares, bonds or currencies. At the moment, banks have to allocate capital only to cover lending risks under the 1988 Basle accord of international supervisors.

The new rules also demand that banks and securities firms monitor their risks at all times keeping a permanent watch on large exposures. For example, trading exposures to a single customer will have to be limited in most cases to less than 25 per cent of capital base – and can only be exceeded with the national regulator's permission. The larger banks are best placed to comply with such demands, having invested huge amounts over the past few years in systems to allow them to monitor their exposure.

Smaller banks are less prepared. "Developing the ability to spot large exposures across the business is a significant headache for many players," says Mr Arun Aggarwal, partner in treasury and capital markets at Price Waterhouse, the accountants. "It imposes a level of integration that only the top few players have."

In theory, the Capital Adequacy Directive could lead to some banks having to set aside significantly more capital. But most banks believe that the directive's impact will be minimal. Mr Ian Linnell, banking analyst at Standard & Poor's, the credit rating agency, says for most the impact has been "neutral to marginal", and believes that some banks will be able to operate with less capital than before.

However, there could be extra burdens for those banks which are heavily involved in equities trading, for which Capital Adequacy Directive rules are stiffer in some cases. For example, BZW, the investment banking arm of Barclays, will have to put aside a little more capital, according to Mr David Band, chief executive.

But the biggest impact so far has arisen from the need to invest in upgrading technology to comply with the directive's requirements to monitor group operations globally. Some of the bigger banks have spent up to £5m on systems and software, and even the smaller firms face minimum costs of £50,000 to pay for software. Mr Band says there has been a shortage of technicians in London able to work on bank systems. "That has been a big problem for the market," he says.

As the directives come into action this morning, the immediate beneficiaries look to be the large investors who increasingly trade across European borders and are likely to see a reduction in charges. In the longer term, the winners will be the large investment banks, many of which are now based in London. The losers will be the smaller, less efficient brokers and the smaller exchanges that cannot find a role as the EU's stock and derivatives markets become increasingly integrated.

# · OBSERVER ·

## Food for thought

■ Hush. Egon Ronay, the Hungarian-born restaurant critic, has been touring the eateries of Europe's four major international airports and is *not* impressed: The great man, who penned *The Unforgettable Dishes of My Life*, has collected more than enough material for a sequel.

Amsterdam's Schiphol comes bottom in Ronay's airport league table, getting just one out of 10 for its catering quality. "Anybody who eats at Amsterdam airport needs to have his head and palate examined. It is below criticism," says Ronay. Paris's Charles de Gaulle is not much better, scoring two out of 10. Frankfurt gets four out of 10, but Ronay was still far from impressed.

Britain's Heathrow airport comes out tops, with the quality of its chips and coffee getting a special mention. However, one word of caution about the survey. Ronay was hired by the British Airports Authority to undertake the exercise.

What's that they say about the customer always being right?

## NatWest's top gun

■ What will the NatWest Group do with $3.6bn that it is raising from the sale of its US retail banking business to Fleet Financial? Not so long ago NatWest was the biggest of the Big Four UK clearing banks. Now it is the smallest. So the money should come in handy helping fulfil its ambition to transform NatWest Markets into one of the top 10 global investment banks.

Although NatWest appears to have ruled out bidding for a a well-known Wall Street name like Lehman Brothers, it will have to buy something, or someone, if it wants to be a serious player in the big league. In October it paid a hefty $135m for Eric Gleacher's five year-old US mergers and acquisition boutique. Gleacher, 55, made his name running Morgan Stanley's M&A department during some of the biggest hostile takeover battles in the 1980s. Now he has made his fortune by selling out to NatWest.

As long as Gleacher hangs around, NatWest Markets has a chance of being taken seriously in the domestic US investment banking market. However, Gleacher is not an international player and NatWest Markets desperately needs to beef up its global investment banking team if it wants to compete with the likes of Goldman Sachs and Morgan Stanley.

Hence the owners of some European corporate finance boutiques must be hoping that NatWest will be as generous to them as it was to Gleacher. After all, when Morgan Grenfell was looking for a new chief executive in 1987, it had to pay £15m for John Craven's Phoenix Securities to secure Craven's services.

The obvious UK candidate is Hambro Magan's George Magan who worked for Morgan Grenfell before starting his own boutique in 1988. He is a good five years younger than Gleacher and has an equally impressive record in the UK M&A market.

But would Magan join NatWest Markets for less than Gleacher? Surely not. Once again NatWest may have to make do with second best.

## Car maintenance

■ Why does a Lada have heated rear windows? To keep your hands warm when you're pushing it. What do you call a Trabant on top of a mountain pass? A miracle. And what do you call a Yugo which looks like a submarine? A work of art.

Motorists stuck with unloved and unwanted Yugos, products of of the now defunct Yugoslavian motor industry, can take heart. Kevin O'Callaghan, a lecturer at the School of Visual Arts in New York City, has bought 39 abandoned Yugos for his creative art class. After six weeks of chiselling and hammering, they go on display at this week's Los Angeles Auto Show.

The only thing that the exhibits have in common is that they can no longer be driven. Apart from a submarine, the students have turned the cars into such items as a giant telephone complete with push button numbers and handset; an accordion; a confessional – complete with crosses; a grand piano which actually plays, and even a portable loo.

Jeff Paterson, editor of Glass's Guide, 'bible' of the UK motor trade, says: "British owners of old Yugos can expect to get hardly anything for them so projects like this make a lot of sense."

## Collect call

■ Who says Serbia's president is above the law? The home phone of Slobodan Milosevic was disconnected last month because the bill went unpaid while he was in Dayton negotiating a peace settlement for former Yugoslavia.

However, justice was done in the end. According to Nasa Borba, a local newspaper, the telephone company employee was fined 10 per cent of her monthly wage because she had failed to notice that the phone was on a "protected list" registered in the name of the ruling Socialist party.

## Safety first

■ How do Eskimos cope with the snow?

They grit their teeth.

The Financial Times

## 100 years ago

**American finance**

All the cables from New York reflect the feeling of relief which has pervaded financial and commercial circles on the reported successful negotiations for placing further Government bonds. Nothing could be more significant than this of the low ebb to which the credit of the United States has fallen. That it was a little better than had been anticipated in some quarters after the publication of President Cleveland's Message is not saying much. A workman who falls from a scaffold may congratulate himself upon the fact that he has broken only one leg instead of two, but the blessing is of the comparative order, and the case of the United States is somewhat analogous to this.

## 50 years ago

**Motor exports**

The typical British car has limited passenger room, but is highly suitable for British conditions, which are an amalgam of slow speeds, short distances and smooth surfaces. But it is not, in itself, well adapted for the vast spaces of continental travelling and the roughnesses of colonial roads. Meanwhile, the mass-produced American car meets colonial and continental conditions admirably.

FINANCIAL TIMES
Tuesday January 2 1996



# Career diplomat becomes Algerian prime minister

## Cabinet chief seen as 'safe pair of hands' in battle with militants

By Roula Khalaf, Middle East Correspondent

Algerian President Liamine Zeroual has chosen a little-known career diplomat as the country's new prime minister. Mr Zeroual, who was elected president in November, named Mr Ahmed Ouyahia, his 43-year-old head of cabinet, to replace Mr Mokdad Sifi, who had been asked to stay on until the end of 1995.

He is among the youngest prime ministers the country has known, which suggests that Mr Zeroual is trying to reach out to a younger generation in a country where more than 70 per cent of the people are under 30. But Mr Ouyahia's appointment sheds little light on Mr Zeroual's post-election political strategy.

"Zeroual has opted for a safe pair of hands, a skilled functionary rather than a political heavyweight," said one Algerian expert yesterday. "It means the composition of the government is not what really concerns him."

Most Algerians met Mr Ouyahia, who comes from the Berber province of Tizi-Ouzou, for the first time when he appeared on state television last July to read a statement telling them that the last round of talks with the banned Islamic Salvation Front (FIS) had collapsed. The FIS has been locked in violent struggle with the government since 1992 when elections it was set to win were annulled. Mr Ouyahia is not believed to have taken a leading part in the negotiations.

Mr Ouyahia's government is not expected to last longer than a year because Mr Zeroual has promised legislative elections, although he has yet to commit himself to a specific date. The prime minister's task will centre on overseeing economic reforms agreed with the International Monetary Fund and preparing for the elections.

Mr Onyahia is perhaps best known among his colleagues for brokering an accord to end the conflict between Tuareg rebels and the Mali government in 1992, a task which won him recognition as a skilful negotiator. He was named ambassador to Mali to oversee implementation of the accord before becoming state secretary for co-operation and Maghreb affairs in 1993.

Some experts have suggested that the choice of a diplomat with negotiating skills points to determination by the president to seek national reconciliation. But any negotiations with the FIS or other opposition parties which opposed the presidential election are likely to be conducted directly from the president's office rather than the prime minister's. In a system in which the presidency enjoys wide powers, the prime minister's office is entrusted with more of a management role.

Since Mr Zeroual's election was seen as the possible beginning of the end of the four-year Algerian crisis, Algerians and outside observers have been watching for signs that might point to a greater political opening by the president.

Mr Zeroual, however, has been treading carefully, making few visible moves. While continuing to vow to crush Islamist extremists, he has offered militants clamency which reduces their court sentences and closed down an Islamist prisoners' camp.

Experts said yesterday that offering ministries to parties that fielded candidates in the presidential election – a move expected shortly – would be a sign of increased openness.

# Insurers urge UK to reform terrorism premiums

By Ralph Atkins in London

Reform of the UK government-backed terrorist insurance scheme is being urged amid fears that some companies may be inadequately covered. The scheme was introduced after the 1992 attack by the Irish Republican Army on the City, London's business district.

The Association of Insurance and Risk Managers (Airmic) is worried that businesses are having to pay excessive premium rates which are forcing them to choose between buying cover or risk having to bear the cost of a terrorist incident.

Insurance industry estimates suggest that fewer than half of those which buy commercial property insurance purchase full terrorism cover. Many, however, have their own "captive" insurance companies providing dedicated insurance cover. Others could cover the cost of an incident from other resources.

However, Ms Ina Barker, executive director of the association, said: "The danger is that a lot of big businesses do not have enough terrorism cover and are therefore putting business at risk." Such fears could intensify if the IRA ceasefire broke down.

Airmic hopes to hold discussions with the Departmeot of Trade and Industry this year about possible reform to Pool Re, the state-backed mutual reinsurance company. This was set np in 1993 to ensure that conventional insurance companies could provide terrorism cover to commercial clients.

Pool Re members – which include most of the main UK-based commercial insurance providers – have to provide terrorism insurance on fixed terms and rates. Premiums collected by insurers are pooled and used to pay any claims. If Pool Re runs out of money, the government would make up the shortfall.

Since the IRA ceasefire was announced last year, premium rates have fallen. But insurance buyers and brokers say the system remains inflexible and expensive. Airmic is proposing a scheme in which all commercial property policies would include a flat contribution towards the costs of Pool Re, spreading risk among the greatest number of companies and allowing a return to the automatic provision of cover against attack.

# President offers support for continued Dini government

By Robert Graham in Rome

President Oscar Luigi Scalfaro of Italy appealed yesterday to the country's political parties to offer clear ideas on how long the government of Mr Lamberto Dini should last and to give a firm calendar for the life of the current parliament.

The head of state was speaking before a meetlog this week of parliamentary group leaders to fix the terms of a debate on the future of the government. This follows the resignation tendered last Saturday by Mr Dini, the prime minister. The president rejected the resignation, insisting that parliament must decide.

President Scalfaro reinforced this point yesterday in his new year message to the nation. "In a few days the debate in the chamber of deputies will provide the right opportunity to know precisely what the various political groups want, and to see whether a consensus emerges that is both clear to the general public and useful to the head of state," he said.

The debate is likely to be staged next week, allowing further time for the political leaders to negotiate behind the scenes. Until now, none of the main political parties has come forward with a proposal either for the Dini government to continue in power or a date for general elections.

But Mr Dini, who has been in close touch with the main party leaders, appeared confident over the weekend that he would remain in office. Backed by President Scalfaro, he has argued strongly that the country cannot afford a government crisis and a general election during Italy's six-month presidency of the European Union which will last until June.

The tone of the president's message was that of a man who intended to use his limited constitutional powers to the full. He went out of his way to praise the 11-month premiership of Mr Dini – thus indicating his desire to see the former deputy director of the Bank of Italy remain at the helm during Italy's EU presidency.

He also said he would like to see the current legislature carry out a proper reform of the constitution in time for the celebration in 1998 of the 50th anniversary of its introduction. This was seen as a strong hint that parliament should not be dissolved before institutional reform has been tackled.

Several political parties objected yesterday to what they regarded as President Scalfaro's overtly partisan stance. His message was attacked by the right-wing National Alliance, by the Greens, and by Reconstructed Communism, which was formed from the hardline members of the former Communist party.

Parties weigh up risk, Page 2
Editorial Comment, Page 13

# Only half EU states ready for investment directive

Continued from Page 1

Securities Trading (BAWe), which was set up only a year ago to root out insider traders and enforce compliance with stricter disclosure requirements.

Analysts believe the main effect of the directive may be less to encourage financial institutions to open offices in other countries than to change the location where transactions are carried out – reinforcing the position of those markets which already have the greatest liquidity for any particular security.

Mr Giuseppe Zadra, director general of the Italian banking association, said he feared the focus of trading in Italian instruments could shift to other markets if his country's institutions did not invest and modernise. "National markets don't have a future, and that's why they will have to be changed and compete on a European scale," he said.

The new rules have also raised fears that there will be new risks for investors because institutions receiving their "passport" in the country with the weakest regulatory requirements will be able to obtain recognition elsewhere across Europe.

## THE LEX COLUMN

# Going for growth

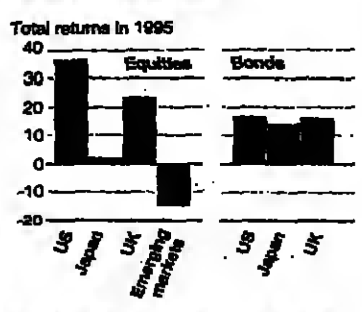
It is perfectly reasonabla to feel sanguina about the prospects for the world's main financial markets in 1996, but it is difficult to get excited. Inflation is low and apparently under control; growth may have slowed, but most economies will still expand this year; and the US economy's soft landing looks convincing enough.

But after last year's bull run, there is mnch less to go for. In 1995, inflation fears proved overdone, allowing interest rates to be cut. The resulting bond market rally, coupled with bid activity, fuelled advances in stock prices.

Even though there are more interest rate cuts to come, the pace is slowing and much of the benefit is already priced into both bonds and stocks. Furthermore, the US market, which led tha way last year, looks rather overvalued. The stock market, having risen more than 30 per cent last year, faces a proliferation of earnings downgrades. Since earnings are not likely to fall off a cliff, a slowdown in economic growth does not necessarily mean stock prices will stall. But tha market looks expensive relative to trend earnings and bond yields. Dividend yields are low, even when share buy-back programmes are taken into account. The benign economic environment probably rules ont a 1987-style crash, but a correction is not only likely, it would probably be beneficial. And there are several potential triggers: the US budget agreement, for example, has still to be thrashed ont.

**Financial markets**

Total returns in 1995




Equities-FT/S&P World indices except emerging markets (IFC composite)
Bonds-JP Morgan indices

### Europe

A correction in the US would hit the UK hardest, since it has benefited most from the bull run. Although strong earnings growth is likely to continue into 1997, the UK has other problems, including the growing possibility of an early election, as the Conservative party's majority dwindles. In fact, Prime Ministar John Major is likely to hold on to power until 1997 even without a majority, but any weakening of his control over the election's timing will be viewed as a negative by the stock market.

The UK also has more to fear from inflation than most other markets, given its relatively rapid economic growth and an expected rise in consumer spending. This will benefit some sectors, such as housebuilding and retailing, but the danger is that any further rate cuts in the first half of the year will have to be reversed in the second – or worse that the government may try to ignore overheating of the economy, since raising rates in the run-up to the alection would hardly be politically expedient. With gilts currently yielding twice as much as equities, the balance looks about right. But inflation jitters could cap gilt prices, halting further equity advances.

Further bid activity, as in the US, will help underpin stock markat prices, bnt estimates that the FT-SE 100 index, whatever early gains it makes, will end the year around 3,750, less than 100 points above its current laval, are probably sensible.

In continental Europe, the problem is too little growth. This bodes well for bonds. Even withont further short-term rate cuts in Germany, there is room for bond yields to fall. More generally, any signs that the structural problems of high social spending and unwieldy budget deficits are being addressed should encourage investors. Bunds and other European bond markets may well outperform the US market in 1996 – the problem is the strongest outperformance is often on the way down, so it may be safer to bet on yield differentials than on absolute price movements.

### Japan

Tokyo's Nikkei-225 has ended the year roughly where it started, just below 20,000, inviting the question of whether US and European fund managers are right to increase their weighting in Japan. Few markets have performed as well over the past six months. The index has gained 37 per cent since its July low, though the yen's decline over that period has eroded more than half that gain when measured in dollars. Currency risk will continua to bedevil foreign investors as economic recovery sucks in more imports, further driving down the trade surplus. But the attraction of Japan in 1996 is that it is the only leading market set to benefit both from the early stage of an economic revival and a pick-up in corporate earnings. A rise in sales should kick in, on top of the margin improvements achieved over the past year.

On the surface, much of this recovery has already been discounted, with the index standing at around 83 times prospective earnings – high even by Japan's historical standards. However, a more useful guide to the Nikkei's valne is the ratio between equity and bond yields. Currently, Japanese government bonds yield 1.5 times as much as equities, well below the long-term average. As a result, Japanese institutions, heavy net sellers of equities last year, may well favour equities over bonds in 1996. The top Japanese life insurers and brokers have shed recent pessimism and forecast a 1996 high for the Nikkei in the mid-20,000s. They may be right.

### Emerging markets

Emerging markets look cheap. On most valuation measures, a rebound is already overdue. Last year's lacklustre performance partly reflects the crisis of confidence following the collapse of the Mexican market at the start of the year. In fact, international investors had little reason to take the higher risks associated with emerging markets. US fund managers in particular were able to make impressive returns in their own domestic market.

But there are signs that US mooey is starting to move offshore again. As fund managers are forced to look for growth outside the domestic market, emerging markets are hound to get at least some of that mooey. Typically, US managers have looked south of the border. But there are still good reasons for avoiding Latin America, not only because of the dire economic problems which continue to afflict some countries. The main bond market is the dollar-deoominated Brady bond market, which would suffer from a US market correction. Slow growth, particularly by emerging markets standards, makes stock markets relatively unattractive, given the associated currency risk.

Asian stock markets look a better bet. Not only does Asia enjoy strong economic growth and a cash surplus: the markets are likely to benefit from funds from Japan, as well as the US and UK.



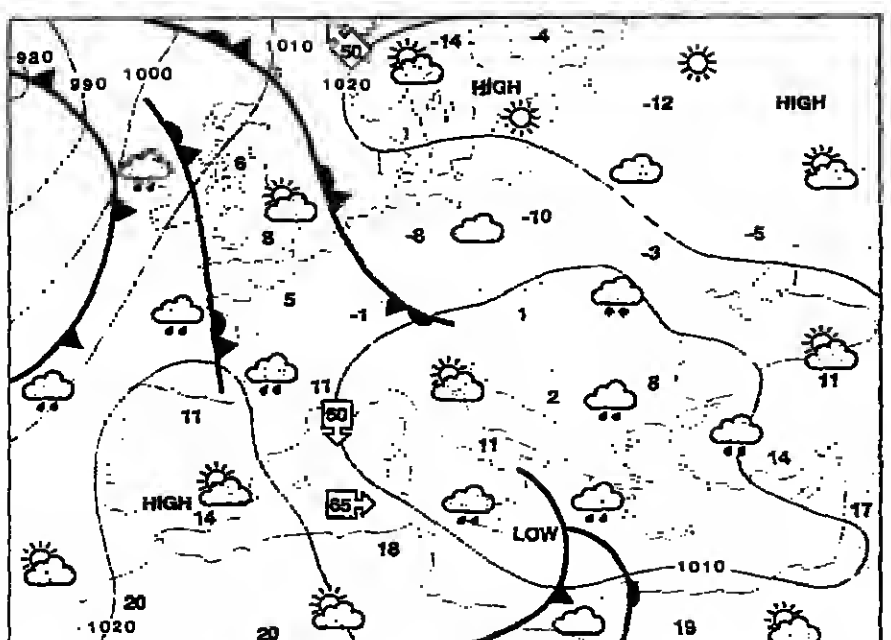
## FT WEATHER GUIDE

### Europe today

Dry, cool air will be drawn across the Netherlands, northern France and Germany. Southern France will have strong northerly winds and rain. Persistent fog will continue in northern France and form in Spain. There will be rain and fog in the south-eastern corner of the UK. A low pressure system will sweep across the Adriatic causing rain in Italy and rain and snow over the Balkan states. More snow is expected across the Baltic states. Eastern parts of the Mediterranean will experience rain and thunder showers.

### Five-day forecast

High pressure will build across central Europe. Warmer temperatures will give way later in the week as wintry conditions return across eastern Europe. A strong low pressure system will develop causing wind and rain along the Atlantic coast.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES** Maximum Celsius

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Abu Dhabi | sun | 24 | Beijing | sun | 1 | Caracas | fair | 30 | Faro | fair | 16 | Madrid | fair | 13 | Rangoon | sun | 30 |
| Accra | cloudy | 32 | Belfast | cloudy | 7 | Cardiff | shower | 6 | Frankfurt | cloudy | -2 | Majorca | fair | 17 | Reykjavik | shower | 6 |
| Algiers | cloudy | 19 | Belgrade | cloudy | 3 | Casablanca | fair | 21 | Geneva | shower | 4 | Malta | shower | 17 | Rio | shower | 29 |
| Amsterdam | cloudy | 2 | Berlin | fair | 3 | Chicago | sleet | 0 | Gibraltar | fair | 17 | Manchester | cloudy | 5 | Rome | shower | 14 |
| Athens | cloudy | 16 | Bermuda | shower | 20 | Cologne | fair | 0 | Glasgow | fair | 6 | Manila | cloudy | 27 | S. Frsco | fair | 16 |
| Atlanta | shower | 15 | Bogota | fair | 20 | Dakar | sun | 34 | Hamburg | fair | -8 | Melbourne | drzl | 20 | Seoul | snow | 5 |
| B. Aires | fair | 31 | Bombay | fair | 31 | Dallas | fair | 7 | Helsinki | sun | 5 | Mexico City | sun | 18 | Singapore | cloudy | 26 |
| B.ham | fair | 6 | Brussels | fair | 0 | Delhi | cloudy | 21 | Hong Kong | sun | 20 | Miami | fair | 28 | Stockholm | sun | -7 |
| Bangkok | fair | 27 | Budapest | cloudy | 1 | Dubai | fair | 25 | Honolulu | shower | 27 | Milan | fair | 3 | Strasbourg | cloudy | -1 |
| Barcelona | fair | 17 | C.hagen | sun | -3 | Dublin | fair | 7 | Istanbul | cloudy | 12 | Montreal | fair | -5 | Sydney | shower | 27 |
| | | | Cairo | fair | 20 | Dubrovnik | cloudy | 12 | Jakarta | shower | 31 | Moscow | sun | -13 | Tangier | cloudy | 17 |
| | | | Cape Town | fair | 23 | Edinburgh | cloudy | 6 | Jersey | fair | 8 | Munich | snow | -5 | Tel Aviv | fair | 20 |
| | | | | | | | | | Karachi | fair | 26 | Nairobi | fair | 27 | Tokyo | fair | 9 |
| | | | | | | | | | Kuwait | fair | 20 | Naples | rain | 14 | Toronto | snow | -3 |
| | | | | | | | | | L. Angeles | sun | 24 | Nassau | fair | 27 | Vancouver | rain | 8 |
| | | | | | | | | | Las Palmas | fair | 22 | New York | shower | 4 | Venice | fair | 7 |
| | | | | | | | | | Lima | fair | 26 | Nice | rain | 13 | Vienna | cloudy | 0 |
| | | | | | | | | | Lisbon | shower | 15 | Nicosia | snow | -6 | Warsaw | snow | -7 |
| | | | | | | | | | London | fair | 8 | Oslo | sun | -6 | Washington | rain | 12 |
| | | | | | | | | | Lux.bourg | cloudy | -2 | Paris | cloudy | 6 | Wellington | fair | 19 |
| | | | | | | | | | Lyon | rain | 5 | Perth | sun | 34 | Winnipeg | sun | -15 |
| | | | | | | | | | Madeira | rain | 20 | Prague | fair | -7 | Zurich | cloudy | -1 |